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**EVOLVING ITALIAN JEWELLERY INDUSTRIAL DISTRICTS
WITHIN GLOBAL VALUE CHAINS:
A COMPARISON BETWEEN VALENZA AND VICENZA**

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Introduction

In the last two decades, the asymmetric forces of globalization, of economic recession and of socio-cultural factors (Rabellotti *et al.*, 2009; De Marchi & Grandinetti, 2014) have deeply affected Italy's Industrial Districts (IDs), which have long been considered the engine of Italian economic growth especially in sectors that best represent the "Made in Italy" (Becattini & Dei Ottati, 2006). Industrial districts have been traditionally important contributors to Italy's international trade performance and are still "the most notable example of business collaboration" (OECD, 2014); however they underwent profound transformation in their structural characteristics and innovation and internationalization strategies (Rabellotti *et al.*, 2009; Chiarvesio *et al.*, 2010) as a reaction to changes in the global competitive arena.

This thesis aims at analyzing how two Italian jewelry IDs – Valenza Po and Vicenza - reacted to the changes in competitive environment they assisted to (new competitors from emerging economies, pressure from the distributive system, a general reduction in

jewelry consumption as a result of both world recession crisis and a general shift in consumers' behaviors), analyzing firms' performances and strategies adaptations. The analysis will be conducted adopting a Global Value Chains (GVCs) perspective, examining how divergent inclusions in global networks may lead to divergent outcomes for IDs destiny. GVCs framework constitutes a useful tool for examining the global economy, analyzing how value is produced, captured and distributed among the several economic actors in the various chain stages performed in different geographical areas (Gereffi & Lee, 2012); a GVCs approach allows unique insights by highlighting the role of external linkages to global industries in shaping the upgrading opportunities and thus evolutionary trajectories of IDs (Gereffi, 2005).

The gold jewellery industry is well suited to this approach (De Marchi *et al.*, 2014): from an IDs perspective, Italian gold jewellery production is highly concentrated within three districts - Arezzo, Vicenza and Valenza Po; from a GVCs perspective, the sector has assisted to dramatic increasing international competition, distribution pressures, changes in consumers' preferences, all elements affecting the performance of the IDs.

The thesis consists of six chapters: in Chapter 1, the GVCs framework and all the related elements are introduced; in Chapter 2, literature on IDs is reviewed, with a particular stress on recent transformation IDs firms assisted to and on element affecting IDs' performances; in Chapter 3 the methodology adopted for the analysis is explained, listing the data sources for the qualitative analysis and reporting an overview of the interviews conducted. In Chapter 4, recent dynamics in the jewelry industry are examined, with a major insight on Italian jewelry IDs firms competitiveness, and the gold jewelry Global Value Chain – as emerged from the interviews conducted – is recreated. Chapter 5 and 6 report qualitative analysis on Valenza and Vicenza respectively, focusing in particular on the major elements affecting firms' strategies, reasoning in GVCs terms. This work ends with a comparison between the two districts, highlighting how the heterogeneity Valenza and Vicenza reports may depend on GVCs related variables.

Chapter 1

The Global Value Chains framework as a lens for analyzing globalized world

1.1. Introducing the GVCs framework

In the globalized world we are facing, firms carry out the various production processes in different countries, typically locating labor-intensive activities in developed countries, in order to gain from the locational advantages.

This means that their value chains – the full range of activities performed to bring a product from its early conception to end use and beyond – are global, dispersed across national boundaries: this implies a need for functional integration of the various activities, functional integration that leads to the creation of inter-firm networks. This integration is what distinguishes mere internationalization (economic activities carried out over national boundaries) from globalization (Gereffi & Korzeniewicz, 1994).

In this context, Global Value Chains (GVCs) framework constitutes a useful tool for examining the global economy: it analyzes how value is produced, captured and distributed among the several economic actors in the various chain stages performed in different geographical areas. It is a tool to analyze geographical dispersion and fragmentation of contemporary supply chains, identifying how value is created and captured therein (Gereffi & Lee, 2012). This is an innovative point of view, since it looks at supply chains on a global perspective, rather than focusing on firm's point of view, observing how it geographically dislocates its activities.

GVCs framework - developed since the mid 90s to account for the emergence of global supply chains (Gereffi & Korzeniewicz, 1994) – aims to define the relative value of each activity performed to bring a product or service from conception to final consumer through the different processes of production. In fact, international trade in this era is no more a multitude of arms-length transactions, but rather a system of sourcing, subcontracting and other contracting arrangements (Gereffi et al. 2001).

To understand this distribution and appropriation of value, GVC analysis entails two perspectives (Gereffi & Lee, 2012):

- A **top-down** perspective, which focuses on how lead firms (big retailers or manufacturers) shape and manage their supply chains, using the concept of “global value chains governance”;
- A **bottom-up** perspective, which focuses on strategies used by countries, regions and firms to improve or maintain their position in the global economy, using the concept of “upgrading” trajectories.

1.2. Origins of the framework

GVCs framework is not the first conceptual approach to have described production in terms of a chain linking together different activities and agents. Bair (2009b) identifies

five main variations on the value chain theme: commodity system, systems of provision, filière, supply chain management and the notion of value chain introduced by Porter.

The value chain refers to the array of activities involved in the input-output process, from the raw material to the final product. As described by Porter, “Value chain divides a company’s activities into the technologically and economically distinct activities it performs to do business (...); to gain competitive advantage over its rivals, a company must either perform these activities at a lower cost or perform them in a way that leads to differentiation and a premium price” (Porter, 1985).

However, this is a perspective that focuses on the firm and on the inter-firm linkages that constitute a value system, through which different enterprises and their value chains are connected, whereas GVCs and its predecessors investigate “interconnected, cross-border processes of trade and production” (Bair, 2009b).

More specifically, the GVCs analysis grew out of the Global Commodity Chain (GCCs) framework, which in turn grew out of the world-system theory (Bair, 2009b).

Hopkins and Wallerstein firstly introduced the term *commodity chain* suggesting that it is the chain obtained when linking all the processes involved in the production of an item, starting from the final product and tracing back the set of inputs that culminated in this item. (Hopkins & Wallerstein, 1977).

The GCCs framework – developed in 1990s - added something: it tied the concept of value-added chain directly to the global organization of industries, giving more power to the firms as “capitalism’s organizing agents” (Bair, 2009b). The starting point for the development of this body of work was the consideration of the growing importance of global buyers as key drivers in the formation of globally dispersed production and distribution networks (Gereffi, 2005). GCCs perspective highlights that, through the dispersed activities performed, the various actors behind are connected to each other and to global markets: they constitute “the infrastructure of international trade” (Bair, 2009b).

The evolution from the GCCs framework to the GVCs perspective is terminological on the one hand and conceptual on the other hand.

Terminologically in the sense that the term “commodity” was questioned, since the term normally refers to primary, low-added or basic products, whereas the framework can be applied to every kind of industry.

Conceptually in the sense that GVCs framework further explores the governance structure of the chains, identifying five possible patterns (Gereffi et al., 2005), whereas

the governance in the GCCs framework lead to a dichotomy: chains can be either producer-driven or buyer-driven (Gereffi, 1994). GVCs framework compared to the GCCs gives responses to the question of how countries can move in the chain and where and when value is captured.

1.3. Key dimensions of the GVC framework

The GVCs methodology encompasses various dimensions (Gereffi & Fernandez-Stark, 2011):

- An input-output structure, describing the full range of activities involved for transforming raw material into final products, with an insight on where, how and by whom value is added – and captured - in the various stages, in order to provide the net returns for the actors behind;
- The geographical configuration of these activities, identifying where the different players are located;
- The institutional context – including trade policy, regulation, standards - in which the industry value chain is embedded, needed for analyzing how local firms are linked in the global economy (Humphrey & Schmitz, 2000);
- The governance structure and the upgrading trajectories for the various stakeholders, with a focus on how the lead firms coordinate their suppliers.

“The GVCs literature provides a framework to understand how value chains are governed by a group of firms that operate at specific functional position in a value chain through non-equity forms” (De Marchi *et al.*, 2014): differently from traditional International Business studies, the GVCs perspective focuses on inter-firm linkages rather than on the single Multinational Corporation and its strategies in locating its upstream and downstream activities at global levels. GVCs framework enriches these studies analyzing how the MNCs orchestrate and govern these global networks they created through their outsourcing policies, studying the impact and effectiveness of

these decisions on suppliers, thus taking an external, an industry perspective (De Marchi *et al.*, 2014).

“We use the term Global Value Chain which also has the advantage of drawing attention to the question of who adds value where along the chain” (Humphrey & Schmitz, 2000): the fact that economic activities are carried out on a global scale has an implication on how countries move up or down in the international system. This is the reason why, as stated above, GVCs framework also takes into account the institutional context in which value chains are embedded. In fact, global outsourcing links developed and developing countries leading to competitiveness on an international scale, which in turn creates a debate for jobs, wages, skills, in different parts of the world, questioning where value is created (Humphrey & Schmitz, 2002).

The shift from the supply chain analysis consists in that GVCs considers the various steps required in the production process, but it does not consider it from a firm point of view, rather it questions which countries are involved: in this way, it creates a map with countries which have different characteristics, and in this way it emerges where a country is located.

An interesting point of the framework is that it gives many levels of analysis: it gives noting insights on local, company, national and global level.

Therefore, these studies deliver linkages between firms and governments, suggesting which reforms may be needed in order to solve some gaps in the value capture. GVCs perspective of analysis has also a great impact on development studies, since “GVCs have created new challenges, risks and value distributions, as well as opportunities, in both developed and developing countries” (Ponte & Sturgeon, 2014).

Thus, GVC analysis has been adopted by many international organizations concerned with economic development, such as the World Trade Organization, The Organization for Economic Cooperation and Development, the International Labor Organization and many others (Gereffi & Lee, 2012).

1.4. The governance of Global Value Chains

Governance is defined as the “authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain” (Gereffi, 1994).

As stated before, governance is one of the central concepts of GVCs analysis permitting a top-down perspective since it takes into account the power particular players exercise in actively shaping the distribution of profits and risk in an industry.

Thus, in order to define the governance patterns existing in a value chain, we must firstly define:

- The various input-output stages of the chain, considered on a global scale;
- The companies present in each stage, with particular attention to the lead firms who, through their activities, exercise power capable to alter relations.

In this way, it is possible to determine how, where, when, by whom value is added and how profits and risks are distributed within the chain (Gereffi & Lee, 2012).

Lead firms are the core actors in managing these global chains, in fact disintegration of production and its re-integration through inter-firm trade are “a result of strategizing and decision-making by particular actors, usually large firms that manage access to final markets in developed country markets” (Bair *et al.*, 2008), they do not happen automatically or systematically.

Gereffi, Humphrey and Sturgeon (Gereffi *et al.*, 2005) identified three key factors for the determination of value chain patterns:

- The *complexity* of information and knowledge required for a particular transaction, especially for what concerns product and process specifications;
- The extent to which this information can be *codified* and, therefore, transmitted between the parties of the transaction;
- The *capabilities* of suppliers in relation to the requirements of the transaction.

Assuming that these factors can assume high or low value, and combining them as shown in Fig.1.1, five governance patterns emerge:

- Markets, which involve relatively easy transactions, high ability to codify transactions and high suppliers’ capabilities. In this kind of transactions, the price is the central governance mechanism;
- Modular value chains: high level of codification, so that complex information can be easily exchanged, high suppliers’ capabilities. In this configuration, suppliers make products following customer specifications.

- Relational value chains: product specification cannot be codified, transactions are complex, and supplier capabilities are high. As a consequence, there are frequent interactions and knowledge sharing between parties: in this configuration there often is mutual dependence and trust, and high levels of asset specificity.
- Captive value chains: complexity of transactions and ability to codify are both high, whereas suppliers' capabilities are low. There is power asymmetry, since small suppliers are dependent on few, much larger buyers who have high power.
- Hierarchy: when information are complex and hard to codify and competent suppliers are not in place, the lead firms will develop and manufacture products by themselves.

Fig.1.1 - Governance patterns

Governance Type	Complexity of transactions	Ability to codify information	Capabilities of suppliers
Market	Low	High	High
Modular	High	High	High
Relational	High	Low	High
Captive	High	High	Low
Hierarchy	High	Low	Low

Source: Gereffi et al., 2005

It must be borne in mind that the same chain, the same industry might have different governance relationships at different stages of the chain.

Governance is a dynamic concept: as industry evolves and matures, governance patterns will change and thus it is a relevant concept in understanding the possible upgrading patterns of subjects participating. As stated before, governance entails power relationships, but “the exercise of power by one party depends on the powerlessness of

other parties in the chain. Therefore, existing producers or their spin-offs may acquire new capabilities or explore new markets, and this changes the power relationships” (Pietrobelli & Rabellotti, 2006).

1.5. Upgrading trajectories in Global Value Chains

Governance structure of global value chains is the starting point to determine upgrading trajectories for those subjects participating in: governance defines how lead firms globally shape and organize their supply chains whereas upgrading refers to the “strategies used by countries, regions, and firms to maintain or improve their position in them” (Gereffi *et al.*, 2005).

In order to improve their position in the global chain moving into higher-value activities, firms need to acquire new technological capabilities, knowledge, market linkages, assets, workers training: thus, upgrading is a mix of government policies, institutions, corporate strategies and worker skills (Gereffi *et al.*, 2005).

We can distinguish between economic upgrading – that is, countries and firms moving to higher value GVCs activities – and social upgrading – “the process of improving the rights and entitlements of workers as social actors and enhancing the quality of their improvement” (Barrientos *et al.*, 2011). Sustainable growth will be reached only when both economic and social upgrading are reached, which unfortunately does not always happen simultaneously.

In Barrientos, Gereffi, Rossi (2011) four types of economic upgrading are identified:

1. Process upgrading, which entails changes in the production process to transform inputs into outputs more efficiently;
2. Product upgrading, which entails introducing more advanced product lines;
3. Functional upgrading, when firms change the mix of activities they perform towards higher value added tasks, acquiring new functions in the chain;
4. Chain upgrading, which means entry into a new value chain by leveraging the knowledge and skills acquired in the current chain.

Here an example of upgrading trajectory in apparel industry, as shown in Gereffi (1999) and Gereffi & Memedovic (2003): upgrading in this industry means moving from simple assembly of imported inputs to more integrated forms of OEM and OBM

production, involving a greater use of forward and backward linkages at the local or national level.

Here a short explaining of the terms (Gereffi & Memedovic, 2003):

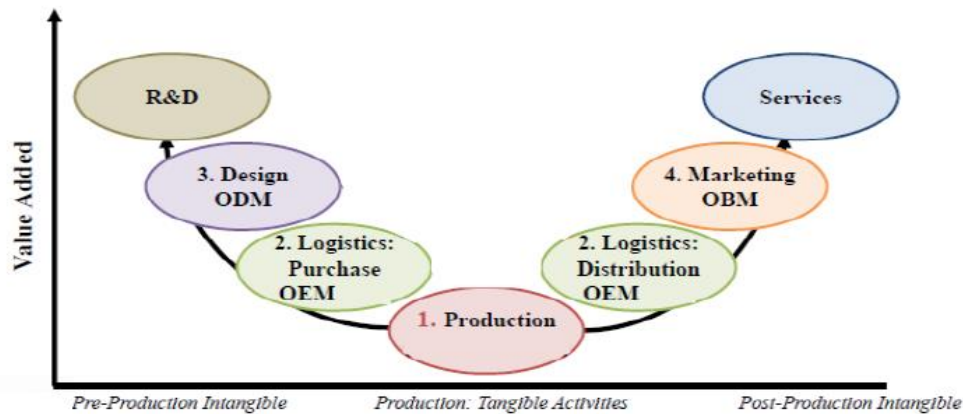
- Assembly: it is a form of industrial subcontracting, where MNCs provide the inputs that are assembled in overseas factories;
- Original Equipment Manufacturing (OEM): it is a form of commercial subcontracting. The suppliers manufacture products following buyers' specifications, design is provided by the buyers and the product will be sold under the buyers' brand: the manufacturer has no control over the distribution channel;
- Original Brand name Manufacturing (OBM): manufacturers use their own design and distribution expertise for the products they produce, which are sold under their own brand.

This trajectory is confirmed by a number of firms in the East Asian NIEs who already successfully moved from assembly to OEM and are now moving towards OBM, combining their manufacturing expertise with own design and distribution.

These firms rapidly upgraded from mere assembly phase to the OEM stage thanks to the learning processes engaging with MNCs entails, ensuring large orders from global buyers. The OEM export role permitted local firms to learn preferences and standards in price, quality and delivery of products for foreign buyers. In this way, the suppliers managed to learn a lot and later they were able to further exploit this gained knowledge to increase their competitiveness: they are now able to use these capabilities gained manufacturing for others in order to develop their own design and sales distribution, moving to OBM phase (Gereffi, 1999).

This is an upgrading process since the different steps entails different value added (as shown in Fig.1.2) and appropriation: moving from assembly to OEM to OBM, local firms can increase their competitiveness.

Fig.1.2 - Upgrading trajectories in apparel industry



Source: Fernandez-Stark et al., 2012

Upgrading trajectories entails challenges for the actors involved (whether they are companies or nations): the first step is to identify where the firm, the country or the region (depending on the level of analysis) are located within the chain and to identify the upgrading path to follow. Once this has made clear, new challenges are faced: upgrading requires new skills in the workforce, adoption of new technology, creation of new jobs and institutions, thus implying training courses, certifications and standards. This highlights how, as was mentioned above, GVCs framework links firms, government and their policies.

As Humphrey and Schmitz (2000) argue, certain types of chain governance favor some forms of upgrading but not others. Although in their studies they identify only four governance patterns (arm's length market relations, network, quasi-hierarchy and hierarchy), they stress that in quasi-hierarchical chains functional upgrading is limited, thus for local firms it is difficult to move into new strategic function, whereas these chains offer favourable conditions for fast process and product upgrading, thanks to the pressure to comply with the standards imposed by the chain's leaders (Pietrobelli & Rabellotti, 2006). In market-based relations chains, on the contrary, local firms are more likely to invest in functional upgrading, whereas process and product upgrading tend to be slower. In network chains there are favourable conditions for upgrading, but these are hindered for developing countries since high and complementary - to those of the lead firms - competences are required.

1.6. The relevance of buyer-driven commodity chains in shaping global industries development

A key aspect of the GVC framework is the focus on the so called “big players”: large retailers (like Walmart, JCPenney and Carrefour), global marketers (such as Nike and Polo Ralph Lauren) and supermarkets and food multinationals (like Tesco, Sainsbury’s, Kraft Foods and Nestlé). They organize decentralized production networks, globally subcontracting the production activities needed for their orders: the resulting value chains are thus “buyer-driven commodity chains”, since this global sourcing is based on orders from these lead firms (Gereffi, 1994). These lead firms globally spread their activities exploiting the locational advantages, thus they are particularly influential in the globalization process since they link developed countries who place the orders, and developing countries who carry out the production, relying on cost advantages (Gereffi, 1999).

Labor-intensive industries, like garments, footwear, housewares are characterized by this configuration, in which the demand, the consumption determines the production, where and how it takes place (Gereffi, 1994).

For this reason, the lead firms behind the buyer-driven chains are deemed to have created demand responsive economies, in which they estimate final demand and then organize the production (or better, the subcontracting system) accordingly (Hamilton & Gereffi, 2009).

The firms leading the buyer-driven chains often do not manufacture, and frequently do not even own production facilities (and thus they are called “manufacturers without factories”): “They govern the chain, specifying what is to be produced by whom over the chain even in the absence of ownership” (Gereffi, 1999).

In the value chain, they cover activities of design and marketing, but they do not produce the products displaying their brands: these products are instead produced by a system of suppliers – through contract manufacturing - who follow the directions and specifications of these big buyers setting the orders (Hamilton & Gereffi, 2009).

“The main job of the core company in buyer-driven commodity chains is to manage these production and trade networks and make sure all the pieces of the business come together as an integrated whole” (Gereffi, 1994): it is clear how their main role is to connect the demand to the production, engaging the most cost effective suppliers and thus creating competitive pressure among them.

In producer-driven chains profits come from scale and technology, whereas in buyer-driven profits come from strong design and marketing and an effective management of the backward linkages in the value chains, so that buyers basically “act as strategic brokers in linking overseas factories and traders with evolving product niches in their main consumer markets” (Gereffi, 1994).

Buyer-driven commodity chains characterize many of today’s consumer goods industries, which deal with constant demand for variations in styling and novelty in design, ensuring new models for each collection, which are occurring more often than in the past during the year: thus, companies like Nike, Reebok, The Gap, Wal-Mart exercise pressure for low wages, flexibility, low prices and faster delivery on their global suppliers. There are many debates about the emergence of these chains, since they might create wealth without creating jobs, or even deteriorating the job conditions, since the wealth created goes to those lead firms, with no benefits to some actors in the chains.

Large global retailers play a powerful role in these international networks of subcontracting, and their relationship with suppliers is a “market-making phenomenon because it shapes trade, pricing, contracts, conduct, and standards manufacturers must follow to bring goods to the market” (Gereffi & Christian, 2009).

Consequently, there is an uneven distribution in the value caption, since the global buyers exert great power over suppliers through the high volume of their purchases; moreover, today economy faces a retail revolution, with retail sector becoming more concentrated, with few large chain stores detaining large market share in their sector and thus increasing decision power (Hamilton & Gereffi, 2009).

1.7. Role of emerging economies

As already stressed, GVCs framework aims to understand international competition analyzing how industries are globally organized. Prospects for development and competitiveness are analyzed through governance patterns and upgrading trajectories: this is mostly important for emerging economies. In fact, emerging economies are playing diverse roles in GVCs: during the 2000s, they became major exporters of intermediate and final manufactured goods (China, South Korea, India and Mexico) and primary products (Brazil, Russia, and South Africa), but they have also grown in importance as end markets (Gereffi, 2015). For what concerns the first aspect, it was

mentioned above that firms carry out the various production processes in different countries, typically locating labor-intensive activities in developed countries, in order to gain from the locational advantages. For what concerns the second aspect, instead, especially since the 2008-09 economic recession more trade has occurred between developing economies.

“Domestic industries in both industrialized and developing countries no longer stand alone, competing mainly through arm’s length trade” (Gereffi, 2015): by contrast, developed and developing countries are deeply connected through these networks of foreign direct investments, subcontracting and global sourcing.

Gereffi (2015) identifies three aspects in GVCs perspective relevant to development goals for emerging economies:

- Building export capabilities: in the specialty coffee industry, for example, the value chain is typically dominated by a few large exporters and rosters, although most of the production come from small producers, who were not able to capture the price premiums. USAID, through projects aimed at improve the quality of the coffee to meet specialty status, enabled Rwanda smallholder coffee growers to reduce the power of exporters and roasters.
- Leveraging services to build knowledge capabilities to move to high-value niches in GVCs: Uruguay is a leading country in beef export, and to outweigh the problems related to health and food safety, which makes the industry extremely vulnerable, it developed a sophisticated bovine traceability system. In this way, alongside maintaining consumer and regulatory confidence, Uruguay was also able to export this service to other countries, and to expand it to other industries.
- The role of public-private partnerships for developing skills for upgrading: an example are the “finishing school” in India and the Philippines, which help recent graduates and workers in developing high-demand skills, making them more employable. With a qualified workforce, on the other hand, a country can improve its position in the value chain.

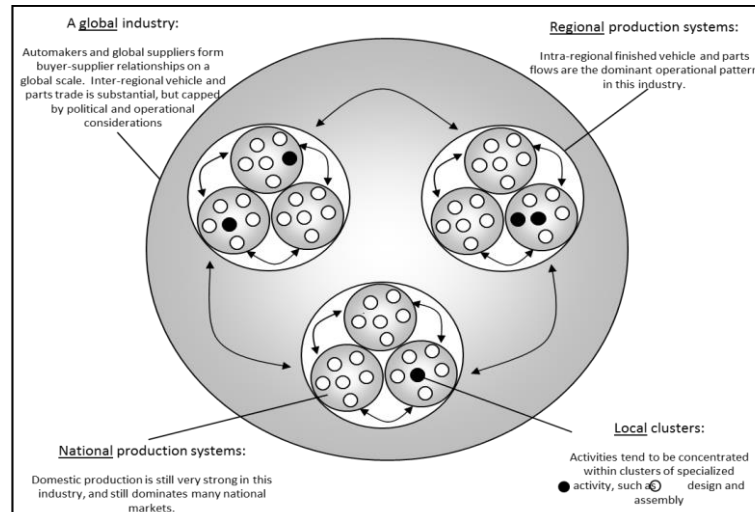
Thus, it is clear that the ability of countries to prosper depends on their participation in the global economy. The challenge is then to link the leading firms in GVCs with small and medium suppliers in diverse local context (Gereffi & Lee, 2012).

1.8. Global/local interface

Although GVCs framework has developed as a tool to describe the geographical dispersion and fragmentation of economic activities as a consequence of subcontracting and outsourcing choices of large multinationals, it has not ignored the fact that production actually takes place on a local level, in producing systems such as clusters and industrial districts. Economic activity often has an important local dimension, since geographical proximity permits the transmission of knowledge and innovation that cannot be codified; however, global integration – the global dispersion of value chain activities and the subsequent reintegration through inter-firm's networks - has created a “web of more or less specialized industrial clusters that are becoming increasingly interlinked over time” (Sturgeon *et al.*, 2008).

As discussed in Sturgeon et al (2008) in the context of the automotive industry, GVCs can be thought of as nested structures: production activities tends to be organized within clusters, which are contained in regional or national production systems; the various national production systems constitute the global industry. GVCs perspective focuses on the external linkages rather than on the linkages within the clusters; internal and external linkages, however, are not mutually exclusive but “part of a nested and increasingly integrated spatial economy that involves cohesion at all spatial scales, local, national, continental, and global” (Sturgeon *et al.*, 2008).

Fig.1.3 – The nested geographic structure of the automotive industry



Source: Sturgeon et al., 2008

GVCs framework, thus, does not neglect the smaller scale entities and actors, such as workers, clusters and firms: “what is observed at the local level often has some direct relationship to what is seen at the national, regional, and global levels” (Sturgeon, 2001).

These considerations are of fundamental importance for Italy, the country with the highest density of industrial districts: Italy has for long counted on benefits of geographical proximity; however, these benefits are now being questioned with the increasing global competition and the emergence of new economies.

Chapter 2

Industrial Districts in Italy

2.1. The Marshallian district

The organization in Industrial Districts (IDs) is one of the most peculiar features of the Italian industrial development after World War II, characterized by a proliferation of small and medium sized enterprises specialized in light industries such as textiles, clothing, footwear, households; industries that best represent the “Made in Italy” (Becattini & Dei Ottati, 2006). Industrial districts are still “the most notable example of business collaboration” (OECD, 2014) and have been traditionally important contributors to Italy’s international trade performance: in 2014, the 147 identified Italian industrial districts accounted for 23% of total national manufacturing exports and for 49% of total national agricultural exports. (Intesa Sanpaolo, 2015).

The concept of “industrial district” was firstly introduced by Alfred Marshall (1890)

who, observing the industrial areas of Lancashire and Sheffield, noticed some recurring characteristics: a population of small and medium sized firms, in a defined geographical area, belonging to the same industry with different specializations, maintaining different levels of relations among them. Moreover, he noticed there was more than mere spatial proximity: there was a continuum between the business relationships and the personal relationships, to the extent that “the mysteries of trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously” (Marshall, 1890).

The notion was then applied by Becattini (1979) to the Italian post-war industrial configuration, when he coined the concept of “Marshallian industrial district”, stressing the existence of both a spatial, historical and cultural (in the sense of shared values, behaviors, rules) proximity.

He defines the industrial district as (Becattini 1990):

A socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area. In the district, unlike in other environments, such as manufacturing towns, community and firms tend to merge.

Also Dei Ottati (2002) highlights how the social context in which production is embedded contributes to the district’s competitive advantage: the cooperation of skilled workers and entrepreneurs leads to constant improvement in products and processes, and to an increase in labor productivity to the extent that welfare is better in district provinces (Becattini & Dei Ottati, 2006).

The production process in IDs is not vertically integrated and performed entirely by a single enterprise, but rather it is split among various actors, each one of them specialized in one section of the supply chain. The specializations range covers the entire production process, extending in some cases also to the production of the machinery needed, to the providing of logistic, marketing or financial support (Camuffo & Grandinetti, 2011).

Summarizing, the main characteristics of the configuration are:

- A defined, limited geographical area;
- A “population of firms” (Becattini, 1990), each of which specialized in one or only a few phases of the production processes;

- The belonging of these firms to the same industry;
- A shared and homogeneous system of values and behavior and the existence of a system of institutions and rules, so to spread those values throughout the district;
- A balance between cooperation and competition: vertical cooperation (in subcontracting, for example) and horizontal competition (Brusco, 1990);
- A constant interaction between different actors which, combined with the spatial proximity, ensures efficient mechanisms of knowledge transfer (Camuffo & Grandinetti, 2011).

2.2. The benefits of localized production

Industrial districts have largely been considered a model with various benefits; literature has largely highlighted the advantages associated with the spatial agglomeration of firms to the extent that IDs are referred as the engines of the growth of Made in Italy. As a matter of fact, small and medium enterprises are not able to reach scale economy as large corporations do, however, they can count on labor division which ensures the ability to supply a specialized and variable demand, typical to the sectors of Made in Italy (Corò & Micelli).

In particular, the competitive advantage that an industrial district ensures derives from the existence of external economies, external to the single firm but internal to the district. Becattini and Musotti (2003) identified a “district effect” stemming from these external economies, insofar district firms compared to non-district firms show higher productivity and products produced within the districts show greater international competitiveness.

These external economies are (Becattini & Musotti, 2003):

- Economies of organization, encouraging the division of work and high degree of specialization;
- Economies of knowledge and learning, since a network activity permits continuous and small innovations;
- Economies of training, ensuring an “entrepreneurial humus”;
- Economies of transaction, with the reduction in information asymmetries.

This “district effect” stems from a facilitated access to knowledge (which often happens to be tacit), technology, skilled labor and specialized suppliers, all factors that permit districts’ firms to outperform the non-districts’ competitors.

The balance between cooperation and competition highlighted previously contributes to the success of the industrial districts model: competition promotes efficiency and innovation, whereas mutual cooperation helps lower transaction costs, reducing opportunism (Dei Ottati, 1991). Industrial districts are also praised for their flexibility and adaptability to change, as well for the adoption of innovation, insofar, differently from the large enterprises in which the change is imposed by only a restricted group of people, here innovation is adopted consciously and thus encouraged throughout the system. The spatial, social and cognitive proximity among firms support knowledge flows, innovation occurs due to learning-by-doing processes within the single firm and its interactions with the other actors.

Another source of success of the model is the flexibility it guarantees if compared to the large enterprise (Corò & Grandinetti, 2001): industrial districts are more flexible in adapting production to demand fluctuations.

Districts’ firms show relevant international competitiveness and export orientation - thanks to the fact that they majorly cover sectors of the notorious “Made in Italy”- as well as a more dynamic capability to register patent and trademarks, also thanks to the support of the local institutions in promoting them internationally (Intesa Sanpaolo, 2015).

2.3. Industrial districts “on the move”

In the last fifteen years, industrial districts have profoundly transformed, facing various challenges that, acting together, are leading to a fading of the Marshallian features of the Italian industrial districts (De Marchi & Grandinetti, 2014). These changes are mainly due to globalization; several studies have pointed out the major and structural transformations taking place within districts, driven by economic or socio-cultural factors (e.g. Rabellotti *et al*, 2009; De Marchi & Grandinetti, 2014). Many changes are actually occurring in IDs: the problems related to the increasing immigration and to the generational turnover; a trend towards higher heterogeneity, with the emergence of new specializations and an increasing importance of the service sector, with an increasing

offer of knowledge intensive businesses services (KIBS) (Unioncamere Veneto, 2012); internationalization as a response to globalization, with firms undertaking new international strategies; adoption of new innovations such as ICT; an increasing presence of business groups and an emergence of verticalization and hierarchization (Rabellotti *et al.*, 2009).

In the following paragraphs a description of the occurring phenomena.

2.3.1. The emergence of a multi-ethnic society and the generational turnover

One of the preliminary requirements for the reproducibility of the Marshallian district is the existence of a homogeneous system of values and norms and local proximity (Becattini, 1990), a continuous blending between social and productive structure. This strong socio-cultural homogeneity in people belonging to the district may be fading because of the increasing size of immigrant workers, leading to a multi-ethnic society and because of the generational turnover, since for the new generations it is no more obvious to remain within the family businesses, and when a proper successor can't be found, the business is closed down (De Marchi & Grandinetti, 2014). These changes cause cultural discontinuity that challenges the Marshallian reproducibility, whose prerequisites are a spatial and cultural proximity, with a continuum between business relationships and personal relationships.

2.3.2. Higher heterogeneity and expansion of services sectors

IDs have assisted to a reduction in number of manufacturing firms, either intermediate or final goods producers, whereas there has been an increase in firms specialized in high-value activities, the so called knowledge intensive business services (KIBS), enterprises specialized in design, marketing and communication and other services that offer support to other district firms (Unioncamere Veneto, 2012). One of the main characteristics of the industrial districts as described by Becattini (1990) was the belonging of the various firms to the same industry, whereas now we are assisting to a diversification of the activities performed, with the development of other sectors related,

for instance, to tourism, often having no affinities or links with the original district's specialization (De Marchi & Grandinetti, 2012). This is in contrast with the Marshallian model, which requires a dominance of the district specialization in the local production structure (Becattini, 1990), so that an “industrial atmosphere” creates.

2.3.3. Globalization

Starting from the late 1990s, there have been shifts in the offer side, with new competitors from developing countries offering a large range of products at competitive production costs. This has on the one hand caused a depletion in the number of firms operating in the districts, squeezed by the competitive pressure, and on the other hand pushed district firms to consider relocating supply chains abroad (De Marchi & Grandinetti, 2014). The more dynamic firms exploited these costs differential in the production in various forms – such as FDI, supply agreements or joint ventures – thus leading to a reduction in the number of supply relationships within the district (De Marchi & Grandinetti, 2014). In this way industrial districts have expanded their links also outside the district – whereas previously this was limited for the raw materials markets and the final markets – opening up what traditionally has been a closed system of exchange at local level, “becoming an integral part of a network economy” (Corò & Grandinetti, 2001), inserting into global value chains.

The increasing competition on a global scale has on the one hand caused a depletion in the population of firms within the districts (since the higher enterprises' mortality rate and the lower birth rate), and on the other hand it has favored the growth processes of certain district firms, mainly through local acquisition, often by external agents (De Marchi & Grandinetti, 2012). These external companies, however, are not per se mining the reproducibility of the district causing a deflection of the relationships: they acquire districts' firms since they are interested in the connection to suppliers and local partners and the knowledge behind: “Multinational entry is designed precisely to get access to the skills and knowledge of the local system rather than to control it” (Whitford, 2001). Rather, it is the consequent higher concentration rate in the district (Iuzzolino & Menon, 2011), that frustrates the Marshallian configuration of the district, which counts on the proliferation of new businesses, feeding the entrepreneurial hummus and the “industrial atmosphere”.

This trend towards an increased verticalization is a response to the increased

uncertainty. As Marangoni and Solari argued (2006), industrial districts are able to cope with some moderate level of uncertainty, such as varying demand or volatility of fashion, but when instability increases, a trend towards verticalization and concentration around few firms occurs: “in this way, horizontal clusters transformed into production systems based on a few leaders and a number of very dependent subcontractors” (Marangoni & Solari, 2006).

These lead firms are now crucial for the evolution of the districts: there has been a sort of natural selection process, where the most dynamic firms have been able to react and grow, strengthening their commercial connections, creating joint ventures, branches or subsidiaries, and stabilizing distribution (through retail chains). Lead firms have exploited the benefits of internationalization, outsourcing production in the make or buy logic and have penetrated foreign markets, expanding globally the network of relationships they are involved in (De Marchi & Grandinetti, 2014).

It is crucial to understand, however, whether these dynamic actors are acting alone within the district or also other actors are following them, thanks to the complex networks of sub-contracting: the presence of dynamic firms is a necessary condition for districts to avoid succumbing to global competition, but not sufficient to guarantee the reproduction of the district form. This can only happen if the leading firms and other dynamic actors do not separate their destiny from their districts: if innovation is spread throughout the agents, the industrial district is more likely to be reproduced, since “this multidirectional opening up process deeply affects the traditional district” (Corò & Grandinetti, 2001).

2.3.4. World recession

Italian districts were thus already facing a structural transformation, reacting to globalization and increasing competitive pressure, when the crisis started in 2008 caused a collapse on the demand side. Globalization with its implications and the recession acting together, led to a strong selection in terms of number of firms: in 1991 districts' firms constituted 25,7% of total Italian firms whereas in 2010 the percentage fell to 24,6% (OECD, 2014).

Summarizing, Italian industrial districts are experiencing profound changes, facing increased competition, adopting new innovation, new international strategies and new

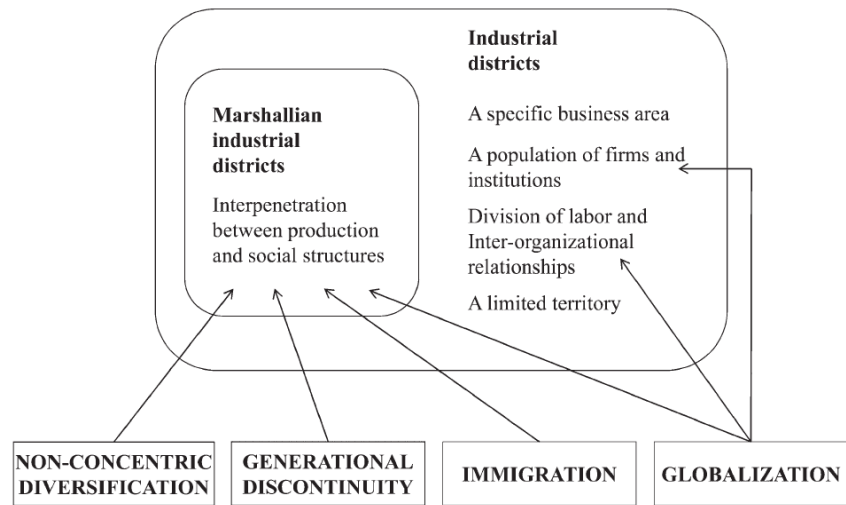
organizational configuration, with an increasing relevance of business groups (Cainelli *et al.*, 2004). All these factors imply a gradual breakdown of the Marshallian model (De Marchi & Grandinetti, 2014), but that does not necessarily mean that Italy's industrial districts have come to the end of their life cycle: "IDs themselves seem on the move" (Rabellotti *et al.*, 2009).

2.4. Four evolutionary paths beyond the Marshallian model

To understand the trajectories the Italian industrial districts are undertaking, moving away from their Marshallian configuration, four variables (Fig.2.1) are to be taken into account (De Marchi & Grandinetti, 2014):

- The stock of firms in a district: as stated before, the effects of globalization, recession and generational turnover are a depletion in the population of firms, mining the reproducibility of the district features.
- The number of inter-organizational relationships or network density: this is affected by the internationalization of some firms, by the presence of a multi-ethnic society and by the diversification of the activities performed.
- The presence or absence of leading firms: as pointed out before, these firms and the relationships they hold within the district may affect the whole district.
- The presence or absence of other dynamic district organizations, other than leading firms, that are dynamic as global players, such as small firms occupying a niche in the global market or subcontractors that managed to internationalize.

Fig.2.1 - Evolving (Marshallian) industrial districts.



Source: De Marchi & Grandinetti, 2014

Considering these variables, De Marchi & Grandinetti (2014) have classified the trajectories of change in the IDs under four different models:

1. Decline
2. Oligopolization
3. Hierarchization
4. “Glocal” reproduction.

Fig.2.2 - Patterns of Industrial Districts’ evolution

	Stock of firms	Leading firms	Other dynamic actors	Interorganizational relations
Decline	Collapse	No	No	Depletion
Oligopolization	Collapse	Yes	No	Depletion
Hierarchization	Contraction	Yes	No	Selection
Glocal reproduction	Contraction	Yes	Yes	Selection

Source: De Marchi & Grandinetti, 2014

1. Decline

The most evident indicator of this trajectory is the collapse in the population of firms, there are no leading firms or other dynamic actors. In this way, the network of relations suffers, preventing the inter-penetration between the personal and business sphere. The absence of dynamic actors prevents the spread of innovation and knowledge; in this way it is also more difficult to be competitive in a global environment. An example of this trajectory is the gold jewelry of Vicenza (De Marchi *et al.*, 2014). It is worth to be stressed that this situation was not inevitable (if this was the case, there would not be the other trajectories), but it happens when is hard to find within the district a sufficient variety, quantity and quality of resources needed to reverse this drift (Unionamere Veneto, 2012).

2. Oligopolization

This scenario involves a collapse in the population of firms, as in the previous one, as well as a depletion in the network of relations and the absence of dynamic actors. In this case, however, there are few leading firms with an international focus. As stated before, it is fundamental to understand how these lead firms operate within the district: it makes a big difference whether they involve, through the relations they entertain with subcontractors and partners, also other firms, promoting the diffusion of innovation and knowledge, or whether they act alone, excluding other actors from their dynamic activities (Corò & Grandinetti, 2001). The latter is the case in oligopolization: in this case, from the traditional district model in which resources and competencies are split among a plurality of actors, there is a concentration of resources and competencies in a few business groups that are not interconnected. This is what has lately happened in the Belluno eyewear district, where leading firms such as Luxottica or Marcolin have vertically integrated many smaller businesses (Unioncamere Veneto, 2012). In this way, large firms internalized most of the benefits previously distributed among small companies, radically transforming the form of these territorial organizations and eroding their socio-cultural pillars (Marangoni & Solari, 2006).

3. Hierarchization

In this trajectory we assist to a contraction in the stock of firms with a selection of the relations by some leading firms, “the district tends to reproduce itself in a smaller form, in the shadow of the leading firms” (De Marchi & Grandinetti, 2014). The districts undertaking this path are transforming into production systems based on a few leaders and a selected number of very dependent subcontractors (Marangoni & Solari, 2006). It differs from the oligopolized district in that the district is still able to reproduce since there are still interconnection among the different actors, whereas in the oligopolized districts the various agents are not interconnected. The ceramic tiles district in Sassuolo is an example of this evolution, where a few major players select a network of local suppliers, restricted but still clearly identifiable (Bursi & Nardin, 2008).

4. ‘Glocal’ reproduction

The districts that continue fall within this category continue to reproduce themselves. There is an inevitable contraction in the stock of firms – consequence of all the phenomena previously described, there are numerous dynamic players maintaining relations within the districts. The network of relations is still in place, albeit less extended and more selective towards those local suppliers guaranteeing quality, innovation and product diversification. The leading firms, globally affirmed, still rely on local suppliers fostering innovation and quality standards, operating as “external knowledge translators and diffusers” (Belussi & Sedita, 2009). All these factors conduce to a requalification of the district area, also thanks to services of R&D, design, marketing provided by qualified KIBS. There is still a depletion in the number of enterprises operating in the area, but still less severe than the other evolutionary paths. They are defined ‘glocal’ since they combine local networks with global networks: they are extensively interconnected with other external actors. This is the case of the footwear district of the Riviera del Brenta (Amighini & Rabellotti, 2006) and of the biomedical district of Mirandola (Facchini & Labory, 2013).

These different evolutionary trajectories support that a high heterogeneity across districts emerges: this heterogeneity might depend on an industrial district's capacity to occupy an adequate position in global value chains (Amighini & Rabellotti, 2006; Chiarvesio *et al.*, 2010; De Marchi *et al.*, 2014). Being included in these global chains, in fact, permits to the participant actors to capture the benefits of increasing international interdependence of economic activities and the magnitude of globalization, although it also has economic and social implications for countries and regions (Gereffi, 2014).

2.5. Blending the IDs perspective with the GVC perspective

As already stressed, being located within a district is no more a guarantee of competitiveness: in the challenges districts are facing, they have to “participate to the international reorganization of the value chain” (Corò & Volpe, 2006) in order to ensure their international competitiveness; thus, industrial districts must ensure to be included in these global value chains.

The Global Value Chains framework offers a tool for linking global systems of production to the economic performance of Italian industrial districts and their recent transformations, since IDs are increasingly engaging into global value chains, becoming “open networks” (Chiarvesio *et al.*, 2010). Adopting the GVCs perspective to analyze the linkages Italian districts have in these global systems gives insights on how district firms perform in international markets. The identification of the lead firms and the more dynamic actors that are present in a district entails the starting point for mapping these chains, since the actions they undertook to survive the increasing competitive environment largely involved internationalization, both in term of end-market and in term of manufacturing and raw-material markets. The ability of these dynamic agents to be included and to occupy an adequate position in this global value chains governed - as seen in the previous chapter - by “big players”, being large retailers or manufacturers, could in part explain the heterogeneity in the evolutionary trajectories that districts are assisting to (De Marchi *et al.*, 2014), since it requires a greater ability in capturing the increasing international interdependencies. These linkages also depend on the nature of GVC governance characterizing the industry, however, in any case big players “play a crucial role by defining the terms of supply chain membership, by incorporating or

excluding other actors, and by shaping how, where, when and by whom value is added” (Gereffi & Lee, 2016).

As Humphrey and Schmitz (2002) have pointed out, cluster literature have focused almost exclusively on the internal relations of localities, while external linkages were simply conceived as either contained within MNCs choices or made through arms-length relationships. GVCs literature, instead, has the opposite geographic perspective, but it focuses on localities by identifying governance patterns and the consequent upgrading trajectories, thereby making the role of global lead firms and changing end markets more explicit, thus offering a tool for analyzing challenges and opportunities in globalized industries.

Linking GVCs framework with local clusters entails six steps:

- | | | |
|--|---|--------|
| 1. Value chain mapping | } | Global |
| 2. Geographical scope of the chain | | |
| 3. Governance structure: leading firms and organizations | | |
| 4. Local institutional context | } | Local |
| 5. Industry stakeholders | | |
| 6. Upgrading trajectories | | |

The first three steps are global in scope: by mapping the value chain, identifying where and by whom the activities are performed, with a particular stress on the “big players”, it is possible to outline the governance structure of the chain. Then, moving the focus on the local perspective, it is fundamental to outline the institutional context, since policies might be needed, and the various actors, leading firms in particular: now, the possible upgrading trajectories can be underscored.

The identification of the lead firms of the district as described in the previous section is crucial: extra-district links take place through their operations, acting as a bridge between local and global knowledge (OECD, 2014). The strategic decisions of these actors have a strong impact at the local level; they have successfully dealt with the challenges of global competition, exploiting international opportunities and thus

redefining their position and their relationships in the global production system (Chiarvesio *et al.*, 2010).

Global Value Chain perspective should not be considered as contradictory to the Industrial District perspective. Indeed, they both analyze the same phenomenon – the fragmented production system – from two different focuses. On the one hand, GVCs perspective focuses on the geographical spread of the activities, with a stress on value creation and value capture. On the other hand, IDs perspective focuses on competitiveness of fragmented production in restricted areas thanks to spatial and cognitive proximity, areas that have in the last 15 years radically transformed, facing globalization. IDs literature focuses on the local dimension as source of competitiveness, GVC considers “territories from the opposite perspective, from global to local” (Chiarvesio *et al.*, 2010).

Moreover, GVCs framework offers a support to the evolving industrial districts: it permits to highlight, accounting for the existent governance, possible upgrading patterns for districts and consequently for regions and countries.

As a matter of fact, industrial districts are involved in the GVCs: the challenges are to underscore, considering the governance of the particular industry and the lead firms, both inside and outside the districts, which might be the upgrading patterns which are likely to impact positively on the local firms in terms of turnover and competitiveness and on the system as a whole in terms of employment, innovation and knowledge (Humphrey & Schmitz, 2002).

Chapter 3

Methodology

3.1. The empirical setting

The aim of this work is to examine how Italian jewellery IDs reacted to the changes in competitive environment they assisted to (new competitors from emerging economies, pressure from the distributive system, a reduction in jewelry consumption as a result of both world recession crisis and a general shift in consumers' behaviors), analyzing how the districts performed and how district's firms adapted their strategies to overcome new obstacles. This analysis has been conducted trying to integrate the IDs literature with the GVCs framework, using the GVCs perspective, and thus its language, examining how Italian districts – through the actions of most dynamic district actors and the role of local institutions - are included into global networks, and how divergent

inclusions in GVCs might differently influence the IDs performance and destiny. The gold jewellery industry is well suited to this approach (De Marchi *et al.*, 2014): from an IDs perspective, Italian gold jewellery production is highly concentrated within three districts - Arezzo, Vicenza and Valenza Po; from a GVCs perspective, the sector has assisted to dramatic increasing international competition, distribution pressures, changes in consumers' preferences, all elements affecting the performance of the IDs.

In my analysis, I considered two of the three main Italian jewellery districts - Valenza and Vicenza, which seem appropriate for comparison given marked differences in the typical production, in presence/absence of lead firms within the district, in terms of upgrading patterns and effects of globalization and world recession on firms' demography, performance and strategies.

3.2. Data sources

Several data sources have been used for recreating the gold jewellery global value chain and for tracing the evolving strategies adopted by districts' firms, in order to be included into these global networks as a result of the changed environment.

Interviews with leading experts

I conducted several interviews with leading experts, including industry associations and consortium representatives, who introduced me to key firms within the districts, which then I interviewed at firms' location. These companies were selected because they are particularly dynamic and have been reactive to the changes occurred. The interviews had an open-ended nature: experts have been asked to report their opinions about industry's trends, main transformations occurred within the districts, main changes in strategies occurred and main trends in the international environment of the sector. The interviews have been organized with the scope of gaining information about key dimensions of linking the GVCs framework to IDs studies, namely the role of global lead firms and district leaders, and the type of internationalization and GVCs strategies implemented by dynamic IDs firms in response to the changing structure of production and end markets, plus the presence of local active local institutions and the enforcement of collective action (Chiarvesio et al, 2010). Table 3.1 reports the number of interviews conducted, the title of informants and the GVC classification, which will be used later in the qualitative description of the analysis.

Table 3. 1: Overview of interviews

	Name of the company	GVC classification	Interview duration	Title of informants
Vicenza				
	Misis Srl	OBM 1	2,5h	Chief designer and Confindustria goldsmith association president
	Better Silver Spa	Hybrid 1 (OEM+OBM)	3h	CEO
	Facco Corporation	Hybrid 2 (ODM+OBM)	3h	CEO and commercial representative
	Fratelli Bovo	Hybrid 3 (OEM+OBM)	1,5h	CEO
	Gold & Silver Italian Group	Local institution	1h	CEO
Valenza				
	Pasquale Bruni Spa	OBM 2	1,5h	CEO
	Carlo Barberis	OBM 3	1,5h	Commercial representative
	Ebor	Specialized supplier	1h	CEO
	Di.Go	Hybrid 4 (OEM+OBM)	1,5h	CEO
	CGS	OEM 1	1,5h	CEO and founders
	F.lli Moraglione	OBM 4	1h	Commercial representative
	Borsalino	Supplier: dealer of diamonds	1,5h	CEO

The evidence emerging from interviews' notes has been triangulated with information coming from other data sources and from other interviews, bearing in mind the aim to recreate the gold jewellery global value chains, understanding how various steps of the chain are carried out both at the district level and at international level. In the following sections, a description of additional sources of data for the analysis.

AIDA database

Database AIDA¹ - which provides the balance sheet of all Italian firms with a turnover bigger than 850.000 euros - has been an unqualifiable source of information for the identification of the firms belonging to the districts.

AIDA database has been consulted using the ATECO codes - the economic activities classification as defined by ISTAT – in order to define sectorial boundaries, combined with geographical delimitations. In Table 3.2, ATECO codes utilized are shown.

¹ Analisi Informatizzata delle Aziende Italiane

Table 3. 2: ATECO codes considered for the identification of the districts

ATECO 1991		ATECO 2002		ATECO 2007	
Code	Description	Code	Description	Code	Description
36.2	Jewelry and goldsmith	36.2	Jewelry and goldsmith	32.1	Production of jewellery, including precious stones, custom jewellery
36.21	Coining of coins and medals				
36.22	Production of jewellery and related articles	36.22	Production of jewellery and goldsmith, including precious stones		
36.22.1	Production of jewellery and golsmith in precious metals	36.22.1	Production of jewellery and golsmith in precious metals		
36.22.2	Production of precious and semi-precious stones for jewellery and industrial use	36.22.2	Production of precious and semi-precious stones for jewellery and industrial use	23.70	Stones cutting, molding and finishing
51.47.5	Wholesale of watches and jewellery items	51.47.50	Wholesale of watches, jewellery and processed stones	46.48	Wholesale of watches and jewellery
		51.47.51	Wholesale of watches and related items and accessory	46.49	Wholesale of other consumption goods
		51.47.52	Wholesale of precious items and precious stones	46.72	Wholesale of metals and metal-bearing materials
				46.9	Not specialized wholesale
				47.77	Retail of watches and jewellery items
				24.41	Precious metals production
				24.54	Other metals production
				28.41	Production of machinery for metals production

Here after a list of the municipalities I considered for the identification of the geographic boundaries of the districts:

- For Valenza district, I considered these municipalities: Acqui Terme, Alessandria, Bassignana, Bosco Marengo, Casale Monferrato, Castelletto Monferrato, Lu Monferrato, Mirabello Monferrato, Novi Ligure, San Salvatore Monferrato, Ticineto, Tortona, Valenza.
- For Vicenza district, I considered both municipalities of the province of Vicenza and of Treviso: Altavilla Vicentina, Arcugnano, Arzignano, Bassano del Grappa, Bolzano Vicentino, Brendola, Bressanvido, Brogliano, Caldogno, Camisano Vicentino, Cartigliano, Cassola, Castegnero, Castelvignola, Costabissara, Creazzo, Dueville, Gambugliano, Grumolo delle Abbadesse, Isola Vicentina, Longare, Montecchio Maggiore, Montecchio Precalcino, Montegalda, Montegaldella, Monteviale, Monticello C.O., Mussolente, Nanto, Nove, Pove del Grappa, Pozzoleone, Quinto Vicentino, Romano d'Ezzelino, Rosà, Sandrigo, San Nazario, Schiavon, Solagna, Sovizzo, Tezze sul Brenta, Torri di Quartesolo, Trissino, Valdagno, Vicenza, Villaverla, Zovencedo; Borso del Grappa, San Zenone degli Ezzelini, Campodoro.

Fairs and Conferences

Attendance at industry fair (VicenzaOro September edition) and conferences have provided general insights on industry trends, on technologies adopted by firms and activities performed, and have provided interesting insights about distribution, commercial and marketing strategies. Furthermore, they represented occasions to complement and control information emerging from interviews at the firms. Attendance at the fair, in particular, has permitted a direct observation, which has constituted a profound source of information for the mapping of the global value chain at district level – as shown in Chapter 5 and 6.

Secondary sources of information

Important sources of information, giving more foundation to my analysis, have been information gained through industry associations' and consortium's platforms, which represent and provide information about district firms, structured phone interviews and the websites of the companies.

Chapter 4

The gold jewellery Global Value Chain

4.1. Recent dynamics in the jewellery industry

Jewellery industry has profoundly changed in the last 15 years: competitive context has deeply transformed as a result of the asymmetric forces of globalization (shifts in the supply side, with new competitors from emerging economies facing the competitive scenario, and shifts in end markets), of economic recession (shifts in the demand side, with drops in advanced economies' jewellery demand) and of a general shift in consumers' taste. Gold jewellery industry is one of the most relevant Made in Italy sectors in terms of international trade: in the early 2000s the propensity of export of the firms operating in the industry was as high as 70% of the production (Coeweb ISTAT

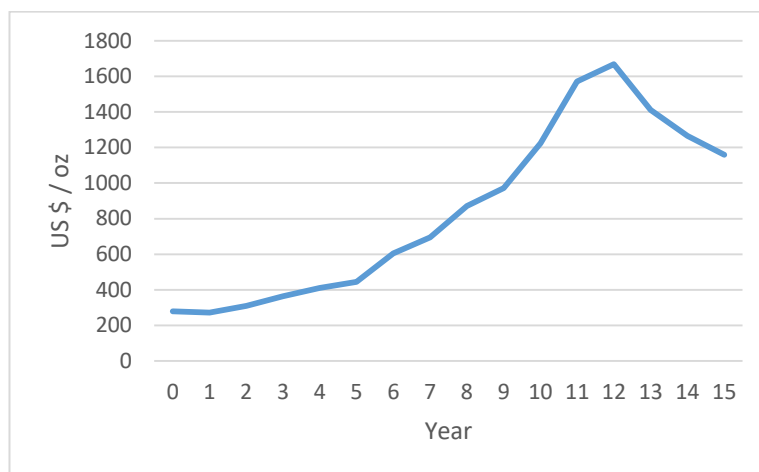
data). The Italian production is mainly concentrated within three industrial districts: Valenza Po, Vicenza and Arezzo, each one with its peculiar characteristics and end markets; the incidence of districts' export counts for 77% on Italian total (Coeweb ISTAT data). As stressed in the previous chapter, industrial districts have been threatened by global competition, by the great recession and by the increasing role of global retailers and branded manufacturers. The districts are however reacting: firms are reorganizing their business models and their strategies, and in the logic of the GVCs framework, they are reorganizing their final markets geography and in some cases also the geography of their production.

All these phenomena are clearly evident in the gold jewellery industry (De Marchi *et al.*, 2014). Global gold jewelry industry is suffering an increasing competitive pressure due to the entry of many new competitors, such as China and Turkey, although emerging economies are also increasing their relevance as end markets, not only as competitors on the supply side (Crestanello, 2009). Distributors and retailers have a huge power, capturing the highest share of value along the chain; there have been vertical integration processes both on the retail side and on the supply side. Jewelry retailing is fragmented and competitive: specialty jewelers compete against other retailers that sell jewellery, such as department stores, mass merchandisers, concept stores, brand retailers, home shopping television channels, direct home sellers and online retailers (Marketline, 2015d). Consumers' habits and taste have changed profoundly (Corò, 2006), with a major attention to other luxury products, such as electronics, travel etc., combined to a general reduction in consumption, consequence of the economic recession (Crestanello, 2009). Another relevant fact is the continuous increase of the price of gold starting from the early 2000s, as shown in Fig. 4.1; this has had various consequences: it has reduced gold demand, on the one hand, and on the other hand it made distributors wanting to minimize inventories in order to contain inventories costs. This implied reduced and fragmented orders, which in turn meant a difficult in planning production for the manufacturers, with the consequence of an increase in operational costs (Crestanello, 2009).

Jewellery industry is deeply volatile, it is strongly influenced by economic cycles and by socio-political situations; oil price has an effect too on Middle East demand. Price sensitivity is relevant in the industry, at least for what concerns low and medium segments of the market, and this is a relevant aspect since items prices are affected by fluctuations in the price and supply of diamonds, gold and, to a much lesser extent,

other precious and semi-precious metals and stones (Marketline, 2015c). Jewellery sales, moreover, traditionally have seasoned cycles, reaching peaking levels in the Christmas holiday periods and in India for example, wedding season boosts jewellery consumption (GFMS Thomson Reuters, 2015).

Fig. 4. 1: Gold price



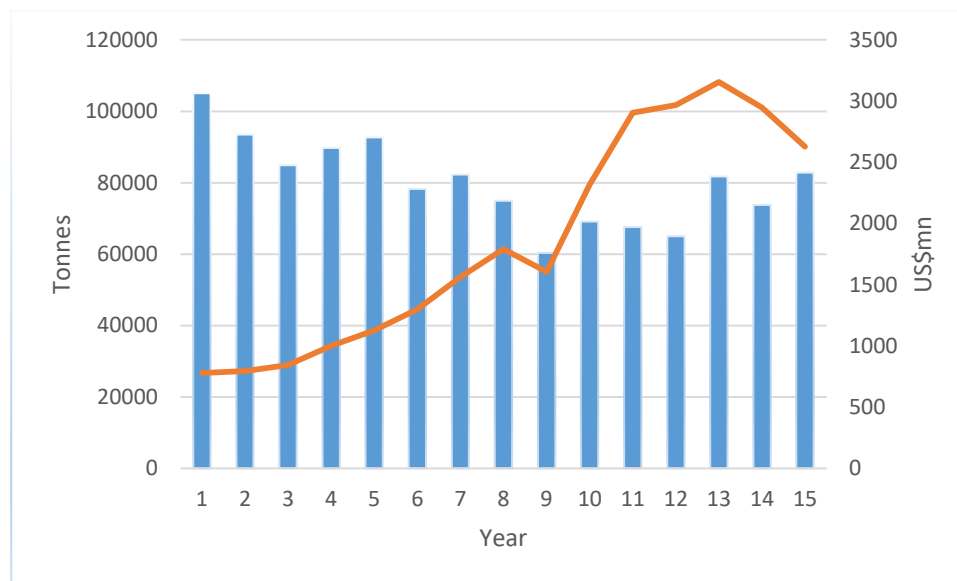
Source: Elaboration from World Gold Council data

In the following sections, the various aspects above mentioned will be explained, highlighting the loss of competitiveness of Italy.

4.1.1. Dynamics on the demand side

The economic recession started in 2008-2009 has profoundly affected world gold jewellery demand: the demand was at its weakest in 2009, reaching 1.760 tonnes whereas in 2000 it reached 3.186 tonnes, thus dropping by 45% in 2000-2009 (GFMS Thomson Reuters, 2015). It is now recovering, however remaining below the early 2000s level.

Fig. 4. 2: World gold jewellery demand: Tonnes (bars, left axis) and US\$m (lines, right axis)



Source: elaboration on World Gold Council and GFMS data

The graph (Fig. 4.2) reports the pattern of global gold demand both in quantity terms and in value terms: it is worth noting how failing to correct for the gold price would lead to misleading results.

4.1.2. Shifts in end markets

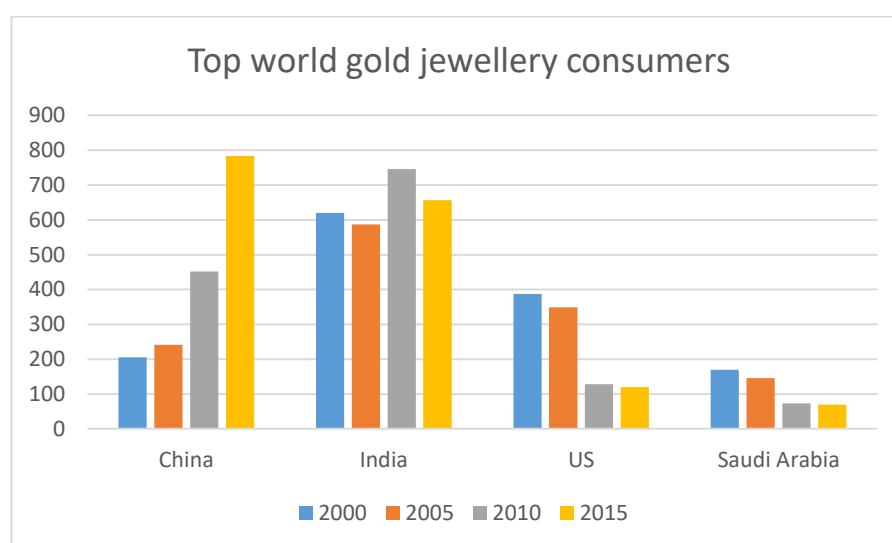
In the last 15 years, beside the general decline in the global gold jewellery demand, the industry has assisted to a shift in the final markets. The main change is the declining importance of the US market demand (passing from 33.6% of the world's total jewellery imports in 2001 to 14.6% in 2015), which was offset by advanced and emerging economies such as Hong Kong, Switzerland and UAE, the United Arab Emirates (Table 4.1).

Table 4. 1: The world's leading jewellery importers and their market shares, 2001 and 2015

Top five importers			
2001		2015	
US	33.6%	Hong Kong	19.8%
UK	11.0%	Switzerland	18.0%
UAE	8.9%	US	14.6%
Japan	7.2%	France	10.2%
Hong Kong	6.4%	UK	7.3%

Source: elaboration from UN Comtrade data. Data refers to Harmonized System code 7113, including jewellery of gold, silver and platinum and other base metal products.

Fig. 4. 3: Top world gold jewellery consumers



Source: elaboration on World Gold Council and GFMS data

In Fig. 4.3, the demand patterns of top global jewellery demanders are shown: according to Thomson Reuters GFMS data, China is the largest gold jewellery consumer, accounting for 32% of consumption in 2015, India is the second largest gold jewellery consumer after China, accounting for 27% of consumption in 2015. United States cover the third place (4,95%) and Saudi Arabia the fourth place (2,85%).

4.1.3. Shifts in consumers' habits and taste

Gold jewellery demand suffers not only because of the economic recession, which caused a general reduction in consumption, but also because of various changing trends in the consumers' habits and tastes.

Some of these changes are here analyzed:

- **Preferences towards other luxury products**

In recent years there have been shifts in preferences towards other luxury products, such as consumer electronics, travels etc, alongside with a general loss of importance of jewellery as proof of richness. Jewels compete with travels, luxury houses, cars, yachts, home furniture, expensive beauty services, clothing and fashion accessories (Doeringer, 2009). For its *2013 State Of The Luxury Industry* report, Luxury Institute surveyed penta-millionaire consumers (minimum annual household income of \$200.000) to learn about current preferences and future spending on luxury goods and services. The results are significant for the jewelry industry: one-third of penta-millionaire declared to spend more on leisure travels; 20% of ultra-wealth consumers declared to spend more on restaurants and wine; 17% on health & fitness; 17% on vacation and real estate. In particular, 25% of the surveyed declared they spend less or much less on jewelry.

- **Attention to fashion and design content**

As Crestanello (2009) points out, in the past jewellery has been very classical and “conservative”, whereas in more recent years design and fashion content have gained importance, with a consequent use of innovative combination of materials, such as leather, iron or glass. The increasing role of the design component requires to present collections more frequently, following fashion trends, and the product lifecycle has notably shorten. These aspects require new capabilities on behalf of the producers: they must be flexible, quick in proposing new offer and must be willing to cooperate with the consumer, allowing for a personalization of the item. Thus, jewelry trends become increasingly merged with the latest fast-fashion trends: this has a consequence on the price sensitivity, since consumers are less likely to purchase expensive real jewelry pieces when

they can purchase fashion jewelry items for a fraction of the price (Marketline, 2015e). To confirm this stronger attention to the fashion content, Jewelers' Circular Keystone (2016) reports that independently owned clothing, shoes and handbags boutiques are increasing their fine jewelry sales: jewels are always more frequently bought to complete an outfit.

- **Attention to branded jewelry**

Another recent phenomenon is the trend towards branded jewelry: McKinsey (2014) identifies three factors driving the growth of branded jewelry: consumers' willingness to show off their acquired wealth, brands' trust and sense of an upgraded lifestyle, and use of the brand as a means of self-expression and self-realization. The research predicts that future growth in branded jewelry is likely to come from non-jewelry players in adjacent categories such as high-end apparel or leather goods introducing jewelry collections, companies such as Dior, Hermes, Louis Vuitton. This trend is a threat for small players such as many of the Italian jewelry enterprises are, since they do not have the visibility and the marketing capabilities these other big brands have.

- **Preferences towards non-traditional materials**

Italian jewelry districts' firms have traditionally produced items employing mainly gold and silver (used more in Arezzo and in Vicenza than in Valenza). However, there are trends on behalf of the consumers' side, in preferring jewelry made out of non conventional materials: Italian firms, thus, still proposing traditional materials jewels lost competitiveness partly also because of this change of preferences on the final markets.

As the Jewelers Circular Keystone (2003) reports, "Sure, platinum is precious and gold is gorgeous, but fashion-conscious (and, often, price-conscious) customers have discovered the wonders of other white metals".

Younger consumers and men are increasingly choosing steel watches, brass, titanium items, which make the product not only cheaper compared to the precious alternatives, but also closer to the customers interested in fashion trends and innovation.

4.1.4. Dynamics on the supply side

Italy has long been leader in exporting jewellery, mainly gold jewellery: in 2001, it was the major exporter in the world (UN Comtrade data). However, starting from 2000s, Italy experienced an increasing competition coming from developing countries facing the global market, first of all China, India, Thailand and Turkey (Pyke, 2009). Italy cannot be competitive in terms of final price, since those countries can count on lower labor costs; those countries, moreover, are able to quickly adopt new technologies and machinery innovations. Countries like China, India, Thailand and Turkey have changed global supply configuration, affirming their presence thanks to an improved quality and service offer (Crestanello, 2009).

Italian manufacturers, indeed, have been substituted by lower-costs suppliers, based in China, India, Thailand and Turkey, who starting from 2000 have strongly increased the quality of their production and their ability to deeply penetrate the market. This substitution happened very fast: within two years, from 2003 and 2005, Italy went from being first US's supplier to rank third, surpassed by India and China, whereas for what concerns UK, Italy shrank from second to sixth position within 2000 and 2005 (CREI, 2011).

As shown in Table 4.2, Italy figures no more in the top five global exporters; the top ranking has profoundly changed from 2001 to 2015. Moreover, according to Coeweb Istat data, in 2000-2015 Italy's gold jewellery exports shrank by 9%, with a peak of 27% in period 2000-2009.

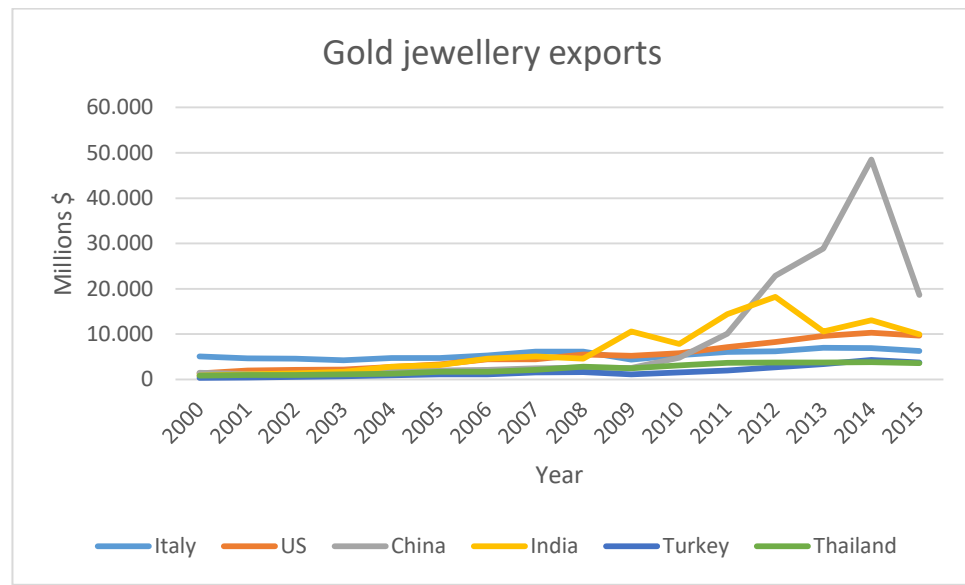
Table 4. 2: The world's leading jewellery exporters and their market shares, 2001 and 2015

Top five exporters			
2001		2015	
Italy	22.3%	China	19.9%
Thailand	7.8%	Switzerland	11.8%
US	7.7%	India	10.7%
India	7.3%	US	10.4%
Hong Kong	5.9%	Hong Kong	7.2%

Source: elaboration from UN Comtrade data. Data refers to Harmonized System code 7113, including jewellery of gold, silver and platinum and other base metal products

In Fig. 4.4, the shift in supply markets is evident: although data are expressed in millions of \$, thus biased by the increasing price of gold, it is clear that US and Italy, traditionally gold jewellery suppliers, suffered due to the entry of countries such as China, Turkey, Thailand and India as manufacturers and distributors of jewellery.

Fig. 4. 4: Global gold jewellery exports, 2000-2015



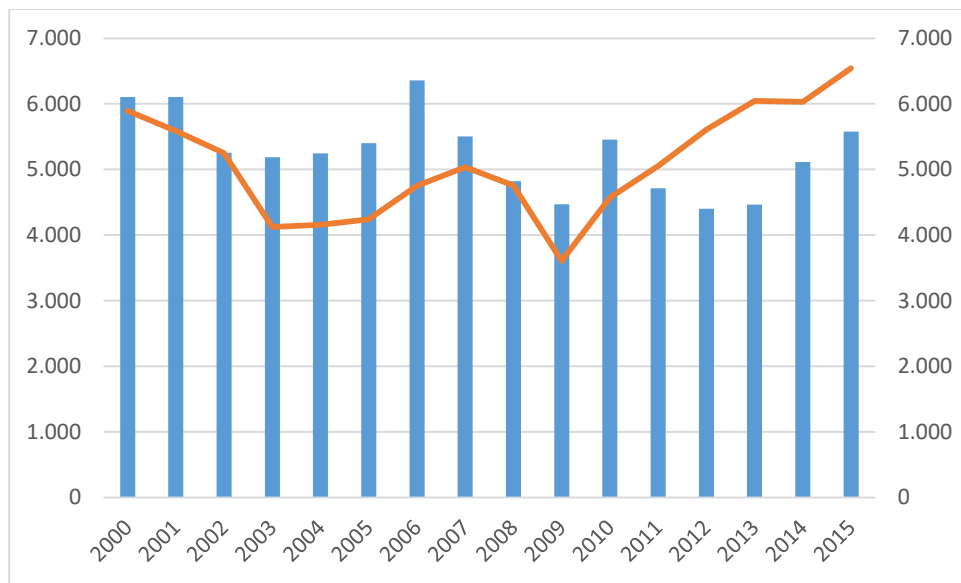
Source: elaboration from UN Comtrade data. Data refers to Harmonized System code 7113, including jewellery of gold, silver and platinum and other base metal products.

4.2. Italy's jewellery firms competitiveness

In the previous paragraphs it has been shown how jewelry sector has profoundly changed in the last 15 years, both in terms of dynamics from the supply side and in terms of dynamics from the demand side. It has been largely stressed how Italian jewellery firms have lost their competitiveness; this is evident looking at jewellery districts' data: in period 2000-2014, the three major Italian jewellery districts, Valenza, Vicenza and Arezzo, assisted to a dramatic decrease both in terms of number of firms and in terms of number of employees involved in the sector. In particular, in terms of number of firms Valenza assisted to a decreased equal to 42.7%; Vicenza of 45.4% and Arezzo of 27.6%. In terms of number of employees, Valenza had a decrease equal to 37.4%, Vicenza of 62.8%, Arezzo of 33.6% (Census Istat data).

Reasoning in terms of export performance, instead, Italy's world exports decreased by 9% in quantity terms in period 2000-2015 (with an increase of 11% in value terms, but it has to be consider an increase of gold price equal to 316% in the same period), with a peak of -27% in period 2000-2009 (Fig. 4.5).

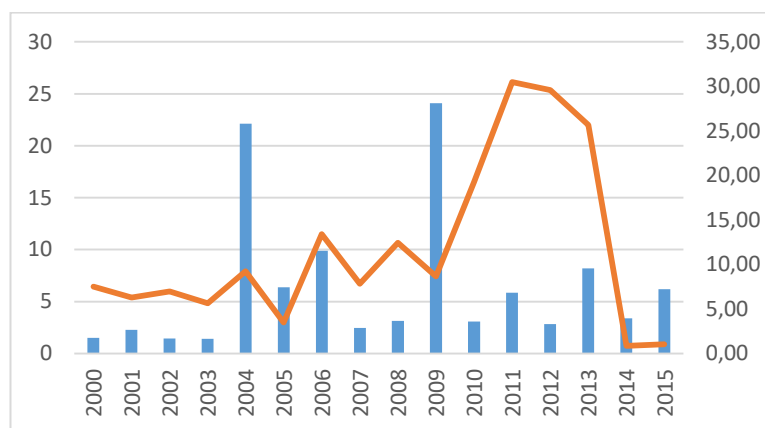
Fig. 4. 5: Italy's gold jewellery export: Tonnes (bars, left axis) and Millions of € (lines, right axis)



Source: Coeweb Istat. Data refers to the ATECO code 32.1

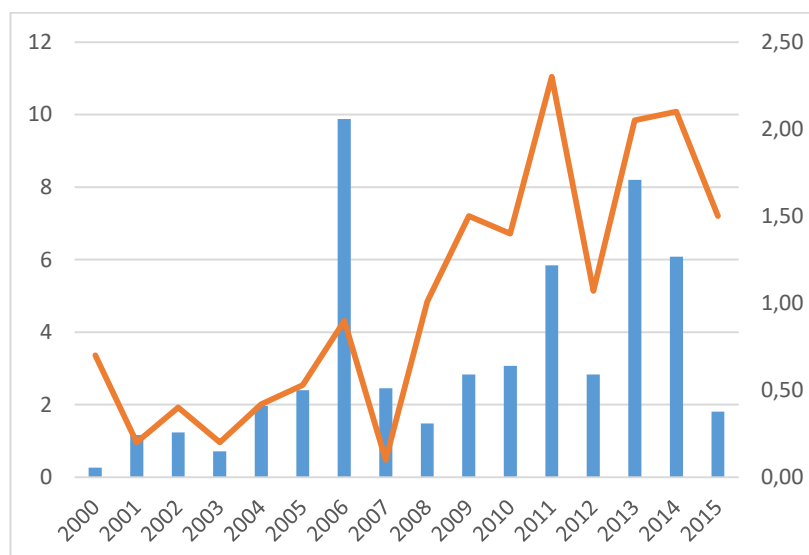
It has to be considered, however, that Italian firms included in their customers' portfolio new emerging economies. It is now interesting to see how Italy contributed in satisfying the demand of the top world gold jewellery consumers. There have been surprising changes in export patterns: Italian exports, in period 2000-2015, had an outstanding increase equal to 312% towards China (Fig. 4.6), equal to 573% toward India (Fig. 4.7); on the contrary, Italy jewellery exports towards diminished by 76% towards US (Fig. 4.8) and by 87% towards UAE (Fig. 4.9).

Fig. 4.6: Italy-China exports: Tonnes (bars, left axis) and Millions of € (lines, right axes)



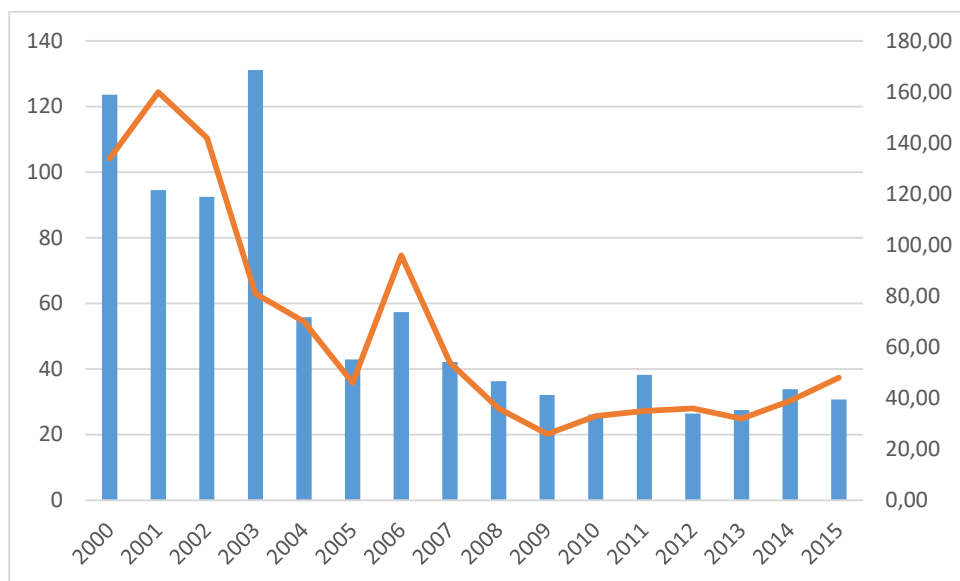
Source: Coeweb Istat. Data refer to the ATECO code 32.1

Fig. 4.7: Italy-India exports: Tonnes (bars, left axis) and Millions of € (lines, right axes)



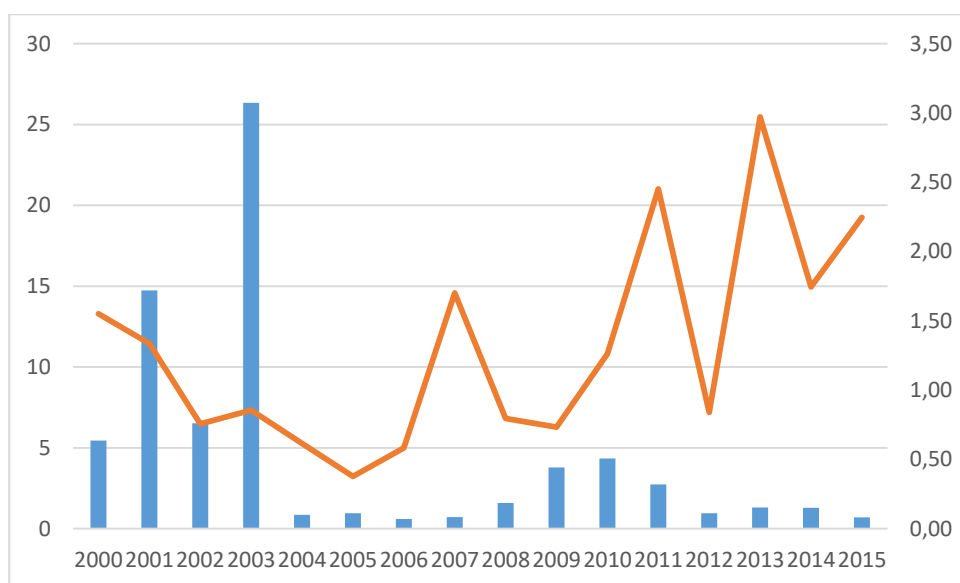
Source: Coeweb Istat. Data refer to the ATECO code 32.1

Fig. 4.8: Italy-US exports: Tonnes (bars, left axis) and Millions of € (lines, right axes)



Source: Coeweb Istat. Data refer to the ATECO code 32.1

Fig. 4.9: Italy- UAE exports: Tonnes (bars, left axis) and Millions of € (lines, right axes)



Source: Coeweb Istat. Data refer to the ATECO code 32.1

4.3. Recent trends in distribution

Traditionally, Italian gold jewellery industry is mainly composed by small size enterprises, who do not directly manage the distribution process but count on

distributors and retailer chains. In the Italian gold jewellery sector it is rare to have a direct channel between producers and final consumers, with the exception of some big branded companies which sell directly through their stores, such as Bulgari or Damiani do; main part of the gold Italian products is sold to the end market under the brand of the foreign distributors (Crestanello, 2009). In more recent times, however, this traditional configuration of the industry is showing its pitfalls: Italian jewellery firms, alongside the difficulties coming from the reduction in the consumption and the competition from low-cost markets, are in many cases suffering also from the recent trends happening on the distribution side. In particular, distributors – being big retailers or wholesalers - are trying to reduce supply costs, relying on less suppliers but collaborating more with them; they are increasing the differentiation of the products and the renovation of the collections to stimulate consumption; and are seeking economies of scale through mergers and acquisition (Crestanello, 2009).

4.3.1. Increased fragmentation in the retail system

There is a stronger competition in the retail system, due to the increased diversification in retail channels: non-jewellery discount chains and non-store retailers (e.g. TV home-shopping and online jewelers) have gained importance in key markets such as US, forcing producers to adjust their strategies (Gereffi & Lee, 2008). In 2006, online jewellery sales increased by 20% from the previous year (Crestanello, 2009); this growth is led by firms specialized in the online sales, such as Amazon, E-bay, Blue Nile. Blue Nile is a US based company and it is one of the leading online retailer of diamonds and fine jewelry. Since it retails online, it has lower operating costs than traditional retailer, and thus can count on a discount up to 40% (Marketline, 2015a). Blue Nile reported a 1,4% increase in year-on-year sales for 2015 (Blue Nile Annual Report).

According to the US Department of Commerce, online retail sales increased from \$169,3 billion in 2010 to \$297,2 billion in 2014; the e-commerce sales increased by 14,4% in 2014 over the previous year. Total retail sales, on the other hand, grew by only 3,6% during 2014 (Marketline, 2016d): these data are signs of opportunities for those online jewelry retailers, but of threats on the other hand for traditional jewelers.

4.3.2. Vertical and horizontal integration processes

The stronger competitive pressure given the new aggressive entrants, such as internet retailers, and the recent changes in the market (more frequent renovation of collections and shorter product lifecycle) are forcing actors to modify their strategies all along the value chain. This is in some cases leading to a verticalization process: Bulgari for example, in 2003 acquired Crova, a Valenza Po manufacturer, and now through Crova it produces internally 70% of its products, whereas before it used to sub-contract 90% of its production (Crestanello, 2009). This is a response to the need to have an increased coordination, more efficiency, quality control, ability to respond quickly to market needs, more flexibility.

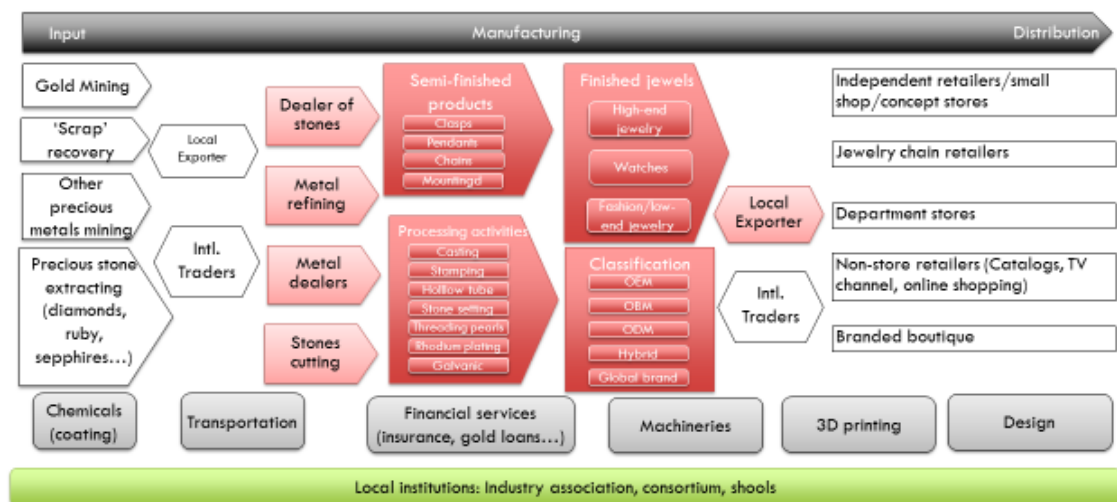
There have also been horizontal integration process, with companies acquiring competitors operating in the same or different market segment: the largest acquisition in 2014 was the purchase of Zale, by its longtime rival Signet, for \$1,4 bn. As a result, the largest jewelry chain in the world was created, with six recognizable retail brands across three countries. The company now holds a 15% share of the specialty jewelry market, three times larger than its nearest rival Tiffany (Marketline, 2015e). McKinsey predicts that by 2020 the ten largest jewelry houses will double their market shares, primarily by acquiring local players (McKinsey, 2014). According to the National Jeweler, the average deal value in jewelry M&A has been rising by a compound annual growth rate of 9 percent between 1997 and 2012 (National Jeweler, 2015). On the one hand, these vertical and horizontal integration processes contribute in increasing buyers' and distributors' bargaining power towards producers. On the other hand, the increasing trend of internet sales and mass consumption markets led to a stronger pressure of profit margins of low and medium end retailers, with the consequence of pushing them moving towards higher-end market segments. The combined effect of the increasing power of distributors and stronger pressure on profit margins caused more worries for the costs of products in the supply chain, thus it is clear how the main role of the buyers and distributors is to manage and organize their supply chain (Doeringer, 2009).

4.4. Gold jewellery Global Value Chain

In this section the gold jewellery GVC – as emerged from the interviews conducted, from the analysis of the literature and from secondary sources of information – will be

explained, always bearing in mind that in Italy gold jewellery production is mainly carried out within districts. Note that this is an approximate picture I made basing on the interviewees opinions triangulated with secondary data information. Thus, in Fig. 4.10, red indicates activities performed within the districts; softening red indicates activities performed by a district actor both inside and outside the district; activities performed outside the districts are left white; grey delineates related activities and green indicate support actors.

Fig. 4. 6: Gold jewellery Global Value Chain



Source: own elaboration on interviews conducted, on industry studies and literature

Input

To analyze the global gold jewellery value chain, obviously, we should start from the raw materials. Raw materials are gold, silver, platinum and other metals, precious and semi-precious stones, all materials characterized by a high implicit value. Raw materials mainly come from five macro areas: South Africa, North (US and Canada) and South America (Brazil, Chile and Colombia), Sud-east Asia (Indonesia, Papa Nuova Guinea, China) and the Ex-Sovietic Union (Ceris, 1994). It is clear that Italy is excluded from this list, thus, it can be said that the competitive advantage that made possible the flourish development of jewelry sector in Italy was not led by a proximity to raw materials.

Raw materials reach the districts through different figures:

- International traders, who are external to the district.

- Dealer of stones: they are internal to the district. They, such as the metal dealers do, cover roles of intermediation and finance through the anticipation of the materials and of guaranty of quality. Before WWII, these activities were carried out by Jews and Milanese (Gaggio, 2007). Dealers buy stones in lots in India, Australia, Africa or in the principal exchanges in the world (Antwerp, New York, Mumbai, Milan), and then they supply the manufacturing firms with the stones they need, thus also providing a service of warehousing: 20-30 years ago, in periods of inflation and speculation for firms was convenient to buy huge quantities of stones, whereas more recently they buy only the stones they actually need, as a consequence of the specialization of the markets.
- Metal dealers: they are specialized in the intermediation between the single manufacturer and the international system. They purchase gold bars from the banks, then they subdivide it into smaller quantities, which manufacturers can afford to buy. These figures may also carry out some industrial activities, such as metal refining and recovery, alloys preparation, wire drawing. They normally are large in dimension, characteristic required by the huge financial resources required to manage large quantities of precious metal.

Once purchased, gold, and to a lower extent also the other precious materials, can not be used pure (it would be too pliable and would thus get damaged): thus, alloys with other metals are created; the percentage of the other metals in the alloy determine the value and the color of it. The creation of the alloys can be done internally, otherwise the firm can decide to buy it in plates or wires.

Manufacturing

Once the alloy is ready to be processed, the real manufacturing process starts. Here after, a description of the various processing activities. These activities are performed within the district, whether internally or externally to the firm, depending on the choices on flexibility made by the firms. Anyway, when these activities are outsourced (to other firms of the district), the resulting relationships seem to be relational: casting and galvanic, for example, are activities that require huge investments in terms of safety and environmental norms, thus often for finished jewelry producers is convenient to outsource, and then rely on the knowhow of the subcontractors. Moreover, since these activities have increased their technological content throughout the years, the

performers have the technological strength to collaborate with the client, thus establishing a relational governance. Traditionally, the firms do not outsource any activities that might imply a loss of gold quantity, since that would translate into a loss for them. On the contrary, operations such as decoration, finishing, stones setting and cleaning are outsourced, alongside some upstream operations, such as the preparation of stamps and models (Ceris, 1995).

Casting/ microfusion

Microfusion had been invented in the 1930s by Detroit-based Kerr Manufacturing for the dental industry, and was then applied also to the jewelry industry. It consists in the vulcanization of a mold of rubber from a pattern made of base metal. The mold is then filled with liquid wax, and this operation could be repeated by several times. The wax then melts in a low-heat furnace, after which the gold alloy is injected into the frame, reaching all the sections of the molds. This is done for the different components of the object, and then they are soldered into the final piece of jewelry (Gaggio, 2007).

Stamping

The plates of metals are passed through two stamps; then, the sticking out metal is eliminated (Ceris, 1995). Once the real production activities are done, there are still various phases to perform before reaching the final, completed jewel. If required, the product might be assembled, engraving and setting stones, then decorated through polishing, galvanic, sandblasting, rhodium- and gold-plating, all finishing and refining activities.

Galvanic

This process aims at enhancing the colors of the jewels, through anti-oxidant baths. The process, although it is a modern technology, requires a lot of handwork. Normally this activity is outsourced, since it requires expensive and specified machinery, and the investment required in know-how, in machinery and safety would not justify the investment. Thus, the activity is often outsourced to outside laboratories specialized in the activity.

Semi-finished products/specialized suppliers

As it is often the case within industrial districts, it is usual to find a fragmentation of the entire production process; this happens also in the gold jewellery industrial districts. In particular, there are suppliers specialized in the production of clasps, mountings, chains, destined to further process once acquired.

Classification of finished jewels producers

In order to blend the literature on IDs with the GVC perspective, it is useful to integrate the languages of the two frameworks, and thus to classify the manufacturers using GVC language: OEM, OBM, ODM.

- **Original Equipment Manufacturing (OEM):** in this category fall those companies which produce under subcontracting agreements. The suppliers manufacture products following buyers' specifications, design is provided by the buyers and the product will be sold under the buyers' brand: the manufacturer has no control over the distribution channel (Gereffi & Memedovic, 2003). In the case of Italian jewelry districts, the buyers are large retailers, distributors, big department stores and branded manufacturers who partly subcontract their capacity: Bulgari, Pandora, Sacs, Tiffany&Co, Dama's International are only few examples of the clients of the Italian jewelry districts. In Chapter 1, it was stressed how "big players" organize their global sourcing networks starting from the estimates of final demand, relying on a network of suppliers on which they exercise competitive pressure, since they select the most cost effective supplier. Gold jewellery industry's value chain is one of this buyer-driven commodity chain: retailers, distributors and branded manufacturers demand constant variations in styling and in design, new models for the more frequently recurring collection, thus they require flexibility, low prices and faster delivery on their global suppliers. Large global retailers organize networks of subcontracting, stabilizing pricing, contracts and standards manufacturers must follow.
- **Original Design Manufacturing (ODM):** this category consists of firms which have design capabilities, thus they do not produce following other's specification; however, they do not have their own brand, thus they do not directly reach the final market. Many firms of the Italian jewelry districts fall

within this category: as emerged from the literature (Gaggio, 2007; Ceris 1995; Crestanello, 2009), Italian firms actually know how to create a jewel, they have the creativity and the fantasy, thus are capable to suggest their clients the design; however, they often lack of marketing and communication capabilities.

- Original Brand name Manufacturing (OBM): manufacturers use their own design and distribution expertise for the products they produce, which are sold under their own brand (Gereffi & Memedovic, 2003). They control the distribution process, have big investment in communication and marketing. As Ambra Cappelleri reports (2010), brand increases perceived value in three different ways. Brand *identifies*, thus entrusting purchaser with a sense of membership to a group; brand *denotes*, indicating the producers of the item, its origins and its quality; brand *characterizes*, giving specified social and cultural meanings to the item.
- Hybrid: how is often the case in Vicenza and Valenza, jewelry firms might fall within more than one category. Many firms that are traditionally OEM firms, such as chain producers, have their own brand, thus adding the OBM business to the OEM business; there are cases of firms which might be classified both as OEM and ODM, depending on whether they exclusively produce following clients' specification or offer a finished product to which then the distributors put their logo on.
- Global brand: in the districts there are also some firms which produce under brand that is internationally recognized. Some examples are Pasquale Bruni, Damiani, Bulgari in Valenza; Chimento, Cielo Venezia, Marco Bicego in Vicenza.

Distribution

The structural characteristics of Italian goldsmith firms, in particular the high pulverization of the production activity in many small entities and the high cost of raw materials that obligate producers to seek huge financial resources, contributed in strengthening power and role of the distribution side, that in many cases led to a

situation of substantial dependency of manufacturers on distributors.

Jewelry sector is characterized by a long distribution channel: traditionally, jewelry manufacturers do not have direct contact with the final markets, but they usually rely on intermediaries, such as wholesalers, big buyer groups, or on the traditional figure – characteristic of Valenza's district – of the *raccoglitore*. Being distant from the final market means that it is difficult for the manufacturers to catch up with the evolving customers' needs and requests; it is difficult to monitor the competition, both in terms of offering and in terms of prices.

Here a short description of the figures involved in the intermediation in the distribution system.

- International traders/Wholesalers: wholesalers have been very relevant figures to the districts. They are geographically located outside the district. They are involved not only in the distribution cycle, but also, indirectly, in the economic cycle: through their orders, they influence the production policies, although this might be a positive aspect since it allows manufacturers to plan their production, avoiding the risks of unsold production. Wholesalers have permitted many small firms to reach the final markets: their offer would have been too restricted to effectively satisfy retailers' needs, but wholesalers centralize the offering of multiple small firms thus addressing the retailers' requests of diversified and updated offering (Cattaneo *et al.*, 1993). Historically, they have always bought often and always in big quantities, with good ways of payment because they anticipate the metal for those who need to work in *conto lavoro*.

From what emerges from the interviews, it seems that Dubai market has the strongest wholesalers (they are numerous, but 10-15 are the biggest and the most important). Dubai wholesalers' intermediation permits Italian manufacturers to reach all the Middle-east Area, Iran, Iraq, North Africa, all countries they would otherwise not directly work with, because of duties and policies: there is a reason for the buyers to be so strong and demanding. US market largely relies on wholesalers, who have recently diminished in number and increased in dimension, representing with more jewelry stores each. US wholesalers guarantee the presence in big department stores, in TV channel and in catalogs, which are strong distribution channel for these markets.

Chinese market relies on strong wholesalers, too: they are based in Hong Kong (it is convenient, in terms of duties, to buy through Hong Kong rather than

directly from China), and then they take care of the distribution to the Far East, China, Vietnam, Singapore. When dealing with Chinese market, Italian manufacturers always face the problem of imitation and counterfeiting; however, they are so strong that they are able to set the rules of the games. Fortunately, they usually buy from Italian items they are not interested in copying, but they buy them to increase their image, to show their customers they also have Made in Italy jewelry.

Although buyers exert pressure on manufactures, using the GVC's perspective, the relation in this step of the chain should not be considered as captive: first of all, to be considered captive, a firm should depend only on the orders of a few of wholesalers, they should represent a major share of the firm's total turnover. To be captive, a single buyer should buy more than 50% of the production, so that they can address the production policies of the company. But it seems that Italian manufacturers are aware of this, so they try to deal with many different customers, trying not to have a single buyer that cover more than 20% of their turnover, in order to avoid the risk that this buyer stops buying, and the company, depending on him, collapses.

Then, as emerged from the interviews, the manufacturers also collaborate with the buyers (after all, they are the ones who hold the knowhow, often they are not properly OEM but rather ODM). In terms of GVC perspective, thus, the governance at this level is deemed to be market like, relying on high suppliers' capabilities.

- Local exporters – *Raccoglitori*. Also called *valigiaio*, this is a figure internal to the district. They were very frequent in Valenza district (Gaggio, 2007; Ceris, 1995); they collect the offering of small laboratories and, travelling around Italy and Europe, propose the offers to the retail system. This is an intermediary between artisanal producer and wholesale, and they also directly supply the independent retailers.

These figures connect the producing firms to the final market, which is reached through different channels:

- Independent retailers/small shops/concept stores. For what concerns the retail system, as Corrado Facco – managing director of the Vicenza fair – explains in Alba Cappelleri (2010), there are some phenomena that are taking place:
 - A gradual specialization in assortment and price segments;
 - Increasing attention towards the brand;
 - Seeking of new forms of collaboration between production and distribution, as a response to the increasing request for personalization and customization from the final consumers.
- Jewelry chain retailers: large retailers, such as Pandora, Rebecca, Stroili, Dama's International, Chow Tai Fook, Gitanjali Gems Group turn to Italian jewelry districts (at least in part) for the production of the items then displayed in their shops.
- Discount/department stores: department stores are still one of the major channel for jewelry sales.
- Non store retailers (catalogs, TV channels, online shopping): catalogs and TV channels (such as QVC) are particularly strong for the US market; it often happens that the manufacturer himself presents his jewelries. For what concerns the e-commerce, instead, it is not largely developed for the sector; anyway, firms are approaching online sales. This distribution channel is not so promising for the sector, since, given the high value of the jewels and the emotional content of the acquiring would request a possibility to try on the items.
- Branded boutique chains: global brands are focusing distribution on their own branded boutique chains: in this way, they can control the distribution and strengthen their brand image, alongside getting prompt information about the evolving customers' tastes.

From the interviews, it emerged that distribution seems to be very independent geographically, very peculiar to specific geographic areas. In fact, in East Europe there are many small retailers and few big retailers, whereas in the Middle East markets the big players are strong wholesalers, who have a very strong bargaining power since they guarantee manufacturers to reach markets they would otherwise not able to reach, and ensure to enter into different distribution channels.

Chapter 5

Valenza Po jewellery district

5.1. History of the district in brief

Valenza Po district - institutionally called *Distretto Industriale di Oreficeria di Valenza* – is located in the province of Alessandria, in Piedmont region; it includes Valenza and eight neighboring municipalities, including also three Lombard municipalities. Valenza is a representative case of the Italian economy and its jewellery is an emblematic of a “Made in Italy” commodity (Fontefrancesco, 2016). The territory extends for 50 km, and many of its inhabitants dedicate to jewelry sector; the district is extremely high in terms of concentration: as Fontefrancesco reports, “still 30km from Valenza, one begins seeing many advertisements from Valenza’s jewellery firms” (2011). Nowadays, 20% of the district is composed by large, industrial firms, whereas the remaining 80% is

composed by smaller artisanal firms, many of which depend on the bigger ones through sub-contracting agreements. The district is so composed: many small or individual firms, strongly specialized; various almost-artisanal firms, still relying on manual techniques, producing one-of-a-kind pieces, few medium-large scale firms with their own brands; many firms exclusively working for others (Databank, 2012).

Valenza's jewelry firms are specialized in the production of high-jewellery items, with large use of precious stones: this is the main characteristic of the district, when compared with Arezzo and Vicenza. Valenza differs from the other districts also for the presence of international leading brands of the sector (Bulgari, Cartier, Gucci, Boucheron and many other manufacture here their jewellery) and for the large use, still today, of artisanal techniques, main part of jewels are still almost completely hand-made. "It is this network of firms and the expertise of local goldsmiths that have made this city the principal Italian center for the production of high-quality jewelry: a local reality of production that has marketed its product throughout the entire world" (Fontefrancesco, 2016).

The birth of the jewelry production tradition dates back to 1840, and it grew from that moment on: before World War I, the firms active in the sector were 40 already, and reached a number of 300 after World War II thanks to the economic boom. The industry has always been extremely relevant to the entire city, almost half of Valenza's working population in 2004 was directly involved in this business (Garofoli, 2004): the city as often been referred to as "The city of Goldsmith". Valenza is one of the leading jewelry centers in the world, "one of the very few places in which the daring design of a Cartier or of a Bulgari can be turned into objects of exquisite craftsmanship" (Gaggio, 2007).

First traces of goldsmith production date back to 1845, when Vincenzo Morosetti, after an emigration period in which he gained experience, opened a laboratory and hired two workers from Alessandria, Francesco Zacchetti and Carlo Bigatti (Allio, 2010). Thanks to his experience, Morosetti started a qualified production, adopting advanced technological techniques. Some time later, Zacchetti and Bigatti left the laboratory, leaving their employed status for founding their own firms.

In 1850 the laboratories amounted to three, in 1872 to five, and together they employed 110 workers. One year later, a Valenza citizen who had largely travelled, Vincenzo Merchiorre, came back and opened another goldsmith workshop adopting all the techniques, the refinements and the know-how he apprenticed in his previous experiences in Turin, at the Twerembold atelier, in Paris at Vaubourzeix Boucheron, in

Firenze at Marchesini and in Rome (Allio, 2010). Melchiorre's production was more refined than Valenza's average, it employed precious stones, mounting them in artistic ways in the jewels. In 1911, Melchiorre & C. employed 86 workers. Other entrepreneurs followed his example: Raselli Nicola (1875), Cunioli e Repossi (1880), Marchese e Gaudino (1882). At the same time, population had not increased much, jewelry business remained locally based activities that did not attract much immigration, thus leading to a high concentration that characterizes Valenza district: this explains why Gaggio (2007) states "There (was) hardly a family in town not involved with the jewelry business".

At the beginning of the twentieth century, in 1902, a cooperative was founded: the *Cooperativa di Produttori di Generi di Oreficeria*, whose members were basically specialized workers and whose production, just before World War I, were about 220.000 liras. The cooperative had the ambition of contributing to the general improvements of the trade's morality and the workers condition. Around 1910, Valenza started producing chains, which implied a major mechanization of the process, although goldsmith production remained mainly artisanal. Male workers were the majority; women were employed in non-specialized mansions, such as cleaning and finishing items, activities that required high precision but low ability and skills.

At the beginning, sales were basically exclusively addressed towards local market, they gradually spread nationally after the Unity of Italy, whereas first exports date back to late 1800s and were mainly addressed to Sud-America. Normally, sales happened through an agent (often the owner of the firm), who travelled throughout Italy visiting himself his clients.

World War I led to the virtual paralysis of the jewelry industry (demand shrank and skilled workers were mobilized), and after the war, local industry shifted from mechanized production (especially gold chains) to custom-made jewelry that combined gold and precious stones. This decision was related to the shift of some entrepreneurs from production to commerce, bypassing the role of wholesalers and selling directly to the jewelry stores across the country through their travelling salesmen (the traditional *raccoglitore*). The hierarchy of agents that still today characterizes jewelry sector was already evident in those years (Gaggio, 2007): at the top, there was a restricted number of commercially oriented agents, followed by a larger group of official subcontracting firms, whereas at the basis there was an even larger number of individual, and sometimes undocumented, cottage workers. These two groups depended on networks led by commercially oriented agents that distributed and supervised production.

The real entrepreneurial boom took start after the end of World War II: in a context of expansion of the Italian and international jewelry markets, many artisans attempted to open their own independent businesses, an opportunity for larger income and a means of self-realization: to open up a jewelry workshop required low starting-up costs, and the artisans could count on a highly receptive worldwide market and on a high offer of work from outsourcing (Fontefrancesco, 2016). The dream was true: in the 1990s, Valenza ranked 8th in the ranking of Italian municipalities capable to generate income and savings (Marchesini, 1993). The increasing specialization allowed the district to surpass – in terms of quantity and quality – the traditional European manufacturers (Ceri, 1995). In 1959, the Piedmontese town began receiving some recognition from the state authorities: Giovanni Gronchi, the president of the Italian republic, paid Valenza a visit, inaugurating the “Home of the Goldsmith”, a villa that housed a permanent exhibition of local jewelry open exclusively to foreign buyers. During the years of the economic miracle, “Valenza became almost overnight one of the most important jewelry centers in the world” (Gaggio, 2007); Valenza’s jewelry industry grew, mainly thanks to exports, at an unprecedented rate until the early 1970s. The years of the economic boom saw the development of systematic contacts with the French designer of high-end jewelry. The technical proficiency of the local producers and the relatively low costs of their work drew almost all the leading international gold jewelry companies to Valenza. By the early 1960s, Valenza had become one of the main suppliers of high quality gold jewelry to Cartier, Boucheron, Van Cleef, and later Tiffany and Bulgari. Gaggio (2007) reports the words of Aldo Annaratone: “They sell their creation, and yet they probably don’t even know how to make it”.

The founding of two private commercial companies are crucial to the development of the local economy (Gaggio, 2007). Casa Damiani was the first firm in Valenza to organize an internationally successful marketing campaign, with testimonials of the caliber of Isabella Rossellini. By the early 1990s, Damiani directly employed 200 people and supervised the work of more than 50 other firms with approximately 500 workers. The other prominent company was Crova, founded in 1977 and center of a network of approximately 100 firms around town. Crova, as it is traditionally for Valenza, produced for internationally recognized maisons, above all Bulgari, which eventually bought it in 2007.

5.2. Major elements affecting Valenza firms' strategies

The overwhelming success reached in the 1980s, led by the national and international demand, had slowed down since 1990s, with a peak of negativity reached in 2009. In 2015, the district's value of exports constituted 25.7% of the Italian jewelry exports, thus confirming its relevance, although at levels below than those of 2000. In the following paragraphs, a description of the major elements affecting Valenza performances, as emerged from the interviews conducted.

- **Globalization and increased competition**

Valenza products are less exposed to competition coming from low-cost countries if compared to Vicenza offering, since its jewels have a higher intrinsic value; in particular, Valenza exports assisted to an outstanding increase equal to 167% in quantity terms in period 2010-2015, whereas in the same period Vicenza exports recovered only by 8% (Coeweb ISTAT data). The reason of the incredible divergence of exports' performance between Valenza and Vicenza might lie in the fact that it seems that the middle market – Vicenza's target market - is disappearing, with a consequent polarization between top end (luxury) and low end (mass market) jewelry (Gereffi & Lee, 2008). Since Valenza is characterized by a production with higher value added, it is less exposed to competition from low cost countries if compared to Vicenza. However, this does not represent a guarantee for the future: low cost countries are upgrading in their quality capabilities, making efforts in improving their products, still maintaining costs (Gereffi & Lee, 2008). From the interviews, in fact, it emerged that emerging economies are actually upgrading also in their capabilities for higher value production: in particular, Thailand has developed surprising design capabilities. A somehow worrying phenomenon that has been reported, and that seems an "inverse delocalization", is that some Indian manufacturing companies have outsourced their design facilities to Italy; or in some cases Chinese, Thailand companies hire Italian manufacturers - who because of the crisis dismissed their businesses - to teach them the secrets of the goldsmith craftsmanship.

- **Presence of the big brands**

Valenza, with its magnificent high-end jewels, has since 1950s attracted the leading brands of jewelry; district firms have traditionally produced for the most important

names of the sector: Cartier, Boucheron, Van Cleef, Bulgari, have largely turned to Valenza's craftsmanship for the creation of their unique pieces (Gaggio, 2007). Moreover, many of the Italian leading jewelry companies have their headquarters in Valenza: Casa Damiani, Pasquale Bruni, Giorgio Visconti, Vhernier, Crivelli and Chantecler, which have always maintained a network of suppliers and subcontractors within the district, thus driving the smaller firms which otherwise could have not reached the final market and read the trends of the market.

The presence of these big brands is nowadays starker: the interviewees report that some of the leading brands (Bulgari, Cartier, Tiffany) more or less 15 years ago moved their more industrialized production to Asia, seeking labor costs differential, whereas now they have come back and moved the production to Valenza, since

“The goldsmith craftsmanship is to be found in Valenza. They still turn to Valenza because the competencies Valenza offers are difficult to find somewhere else” (CEO, OBM 2).

It seems, thus, that Valenza can still count on its craftsmanship, whereas it has been reported that companies who resorted to Asian factories then encountered problems concerning the after sales assistance, customs and quality, thus preferring to turn to Valenza's competencies.

As already stated, Bulgari – owned by LVMH group - acquired Crova to produce internally its products instead of sub-contracting (Crestanello, 2009), in order to increase coordination, efficiency and quality control. Moreover, confirming the increasing presence within the district of international brands, Bulgari is building a new factory in the district, set to open next autumn. The factory is deemed to triple Bulgari's production in Valenza – employing 300 new workers, added to the already 380 employed by the brand - and will be the biggest jewelry plant in Europe (Il Sole 24 ore, 2015). There is, thus, an increase in concentration, and actually firms that have encountered difficulties wish to be acquired by a bigger company, although to be acquired firms need a recognizable and valid knowhow (Il Sole 24 ore, 2013).

In the following table (Table 5.1), it is shown how the first five brands produce 42% of the total turnover, whereas the percentage in 2005 was as high as 24% and in 2000 as 16%: an increasing trend in terms of concentration of turnover is visible.

Table 5.1: Percentage of total turnover

Company	Ranking 2015	Turnover 2015	% Tot 2015	% Tot 2010	% Tot 2005	% Tot 2000
Bulgari Gioielli Spa	1	210,3	19%	5%	4%	n.d.
Casa Damiani Spa	2	144,5	13%	4%	13%	13%
Crivelli Srl	3	66,6	6%	4%	4%	2%
Recarlo Spa	7	24,9	2%	2%	3%	1%
Vhernier Spa	8	22,6	2%	1%	0%	n.d.

Source: own elaboration on Aida data

This trend towards concentration on behalf of the strongest branded companies is also visible considering the number of workers employed by the first five branded companies (Table 5.2): this percentage was as high as 26% in 2015, whereas in 2005 it amounted to 18% and in 2000 to 10%.

Table 5.2: Percentage of total employees

Company	Employees 2015	%Tot 2015	% Tot 2010	%Tot 2005	%Tot 2000
Bulgari Gioielli Spa	408	12%	11%	9%	n.d.
Casa Damiani Spa	336	10%	8%	7%	9%
Crivelli Srl	62	2%	2%	1%	1%
Recarlo Spa	34	1%	1%	1%	0%
Vhernier Spa	35	1%	1%	0%	n.d.

Source: own elaboration on Aida data

- **Pressures from traders' side**

The conflicts of interests between producers and traders are traditionally embedded in the sector (Gaggio, 2007): no matter how proficient individual artisans might have been at their creativity, they needed intermediaries to reach the final consumer. The average small-scale Valenza firm is too small to alone stand against the big buying groups; moreover, lacking of marketing, managerial and commercial skills, offering poor service, and having no retail function (De Marchi *et al.*, 2013), it is difficult to gain visibility against buyers. This is most true nowadays, when the distribution system, especially in the US – traditionally a major market for Valenza – is increasing in concentration. In the interviews it was highlighted how firms who survived the waves of crisis and of collapse of the sector followed either a policy of investment improving

their design and distribution system, being now competitive in international markets, or became qualified suppliers for international or local brands.

- **Lack of strategic communication and old mindset**

Beside these elements which have profoundly affected the district's demography and performance, which have an external source, Valenza's firms lost their competitiveness for multiple other reasons which instead are to be found within the district: lack of marketing and communication capabilities, obsolete distributive strategies, undifferentiated offering, pulverization and undercapitalized firms, slow response to changing customers' requests, lack of efficient formation system (Federpreziosi, 2016). Interviewees reported an inadequate ability of communication on behalf of Valenza firms: the products offered are unique and high-end, symbol of Made in Italy, which is still an argument; however, this uniqueness is not always properly communicated, Valenza producers have to properly provide customers and retailers with arguments able to stress the difference with items coming from other countries. These communication and marketing efforts were not required in the past:

“To be in the market now you need many things: it is not enough to be good at working, you need to be good trading, having strategic communication capabilities. It is different than the past: it was enough to be good at making, now you need to be good in making it, in selling it, selling it at the right price at the right place to the right customer” (Commercial representative, OBM 4).

Another aspect that has frequently been stressed is the fact that people who are now 30-40 years old disregarded artisanal work and preferred to study, thus mining the dispersed knowledge and the capabilities reproducibility.

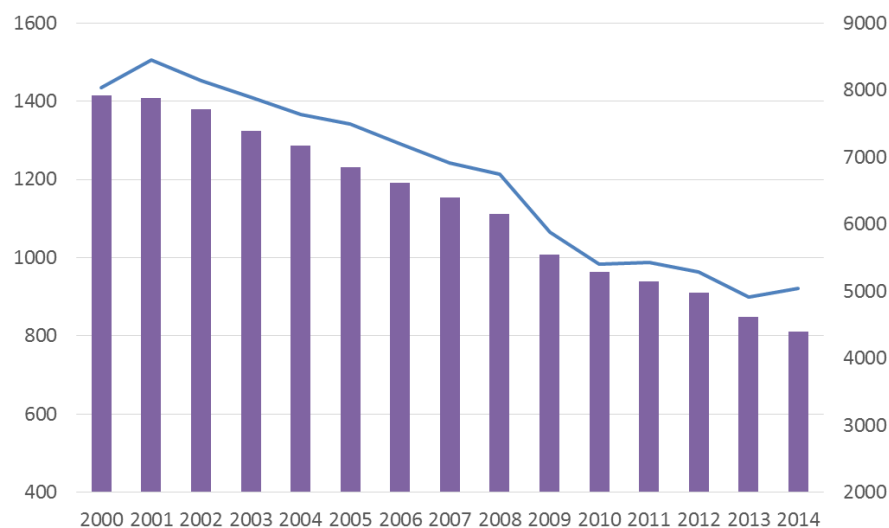
“But this was our fault: the culture, the charm of craftsmanship was not properly transmitted; on the contrary, working in a factory was negatively perceived; fortunately today young generation is approaching again towards artisanal work” (CEO, Hybrid 4).

5.3. Describing the recent transformations

5.3.1. Demography

It has previously been stated (Chapter 2) that the presence of leading firms within a district affects the whole district, and how firms who are not able to be selected as a valid suppliers from the leaders might collapse. This more restrictive selection of suppliers on behalf of the leading firms of the district in part explains the depletion in number of firms and employees in the district (Fig. 5.1). The industry stopped its expansion in terms of number of enterprises and employees: in terms of number of enterprises, the district assisted, in the period 2000-2014, to a decrease equal to 42.7% (passing from 1,414 firms to 810 firms involved in the jewelry activities); in terms of number of employees involved, there has been a decrease equal to 37.4%, from 8,040 employees involved to 5,036 employees involved in the sector. As Fontefrancesco (2016) states, “The experience of job-loss and unemployment are directly linked with the disruption of the professional community that underpinned the business”.

Fig. 5.1: Demography of Valenza: Firms (bars, left axis) and Employees (lines, right axis axis)

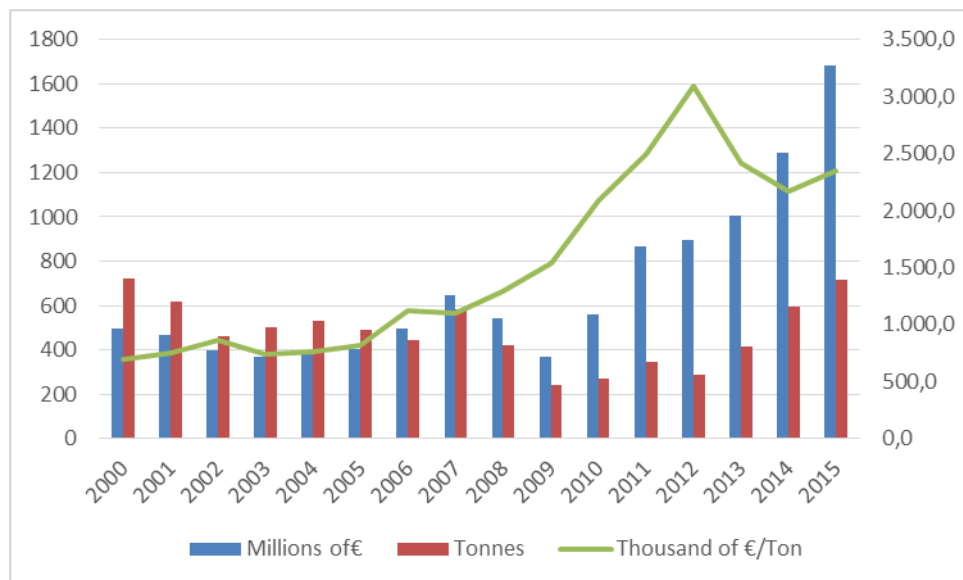


Source: Own elaboration on ISTAT data

5.3.2. Performance

In 2015, the district's value of exports amounted to 1.681 millions of €, covering 25.7% of the Italian jewelry exports, thus confirming its relevance, although at levels below than those of 2000; exports reached their lowest levels in 2009 (with a decrease in quantity terms equal to 45% in '05-'10 period); exports recovered at an outstanding rhythm in '10-'15 period, with an increase equal to 167% in quantity terms. Unfortunately, as it will be explain later, it seems that this growth in exports is mainly concentrated and driven by few strong, international companies based within the district: with the exclusion of leading companies, Valenza's firms lost its competitiveness for multiple reasons: lack of marketing and communication capabilities, obsolete distributive strategies, undifferentiated offering, pulverization and undercapitalized firms, slow respond to changing customers' requests, lack of efficient formation system (Federpreziosi, 2016). In Fig. 5.2 it is visible the exports patterns Valenza district assisted to in period 2000-2015; moreover, it is visible how the price of gold has dramatically increased during these years: this is very relevant in the gold jewellery industry as the raw materials used make up a large part of the final price of the product.

Fig. 5.2: Valenza world exports: Millions of € (blue bars, left axis), Tonnes (red bars, left axis) and gold price (lines, right axis)



Source: own elaboration on Coeweb ISTAT data and World Gold Council data

In Table 5.3 the incredible pattern of Valenza's export is made visible, showing how the district mainly suffered in period '05-'10 (thus in the hardest years of the world recession crisis), for then growing at remarkable rhythm, although remaining below early 2000s levels.

Table 5.3: Valenza's export variations

	Values				Variations			
	2000	2005	2010	2015	% '00-'05	% '05-'10	% '10-'15	% '00-'15
Values	499,0	401,4	562,5	1.681,4	-20%	40%	199%	237%
Quantity	724,0	487,7	268,7	717,4	-33%	-45%	167%	-1%
Gold price (Thousands €/Ton)	689,1	823,1	2.093,2	2.343,6	19%	154%	12%	240%

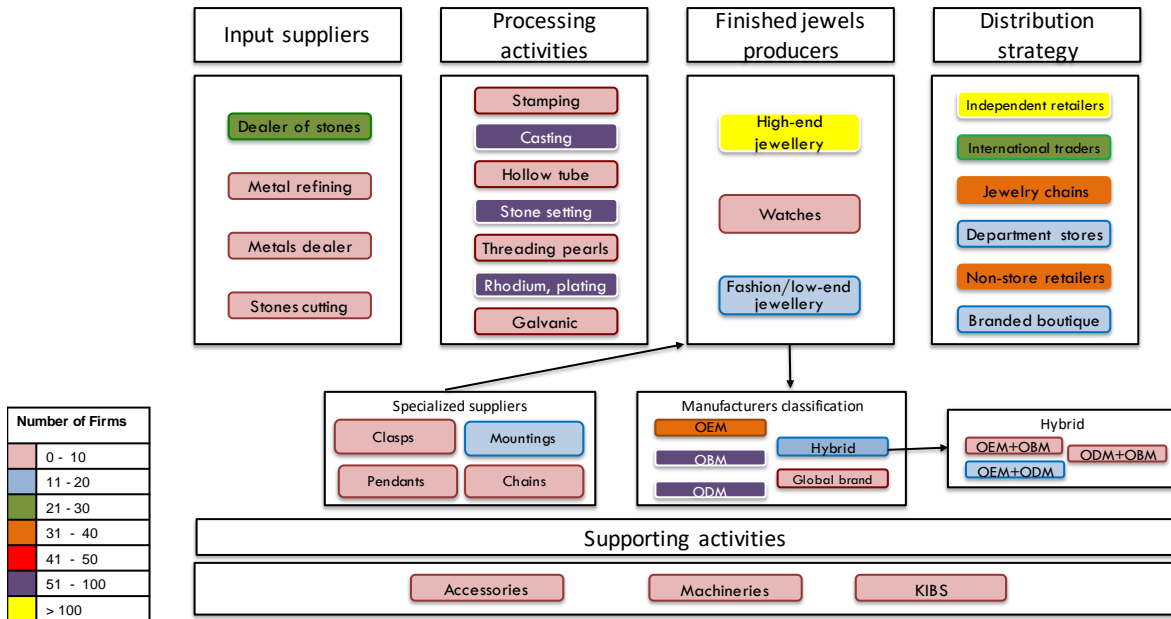
Source: own elaboration on Coeweb ISTAT data, Note: data refers to ATECO code 32.1

5.4. GVC mapping of Valenza district

According to the picture emerged from the interviews, from leading experts' opinions and from researches, in Fig. 5.3 it is shown, in GVC framework terms, how the district is composed today, weighted according to the number of enterprises involved in each activity steps performed within the district. Note that this is an approximate picture I made basing on the interviewees opinions triangulated with secondary data information. It is visible how the production in Valenza is high-end, using precious stones and precious metals, whereas the use of other non-precious materials is only marginal. The production in Valenza Po district is very homogeneous: more than 80% of the final jewels producers produce high-end jewelry, whereas less than 20% of the producers target fashion/low-end markets.

It is worth noting that almost 60% of the almost 300 firms considered for the analysis have contacts with the market, offering a final jewel; 7% of the firms are specialized suppliers (supplying semi-finished products such as chains, bracelets and components such as clasps, mountings...); and 9% of total firms are specialized in processing activities, thus being casting, galvanic, engraving laboratories: there is a fragmentation of the productive process, although it is not remarkable; often companies offering a final jewel entirely perform all the production activities inside, without resorting to district's capabilities.

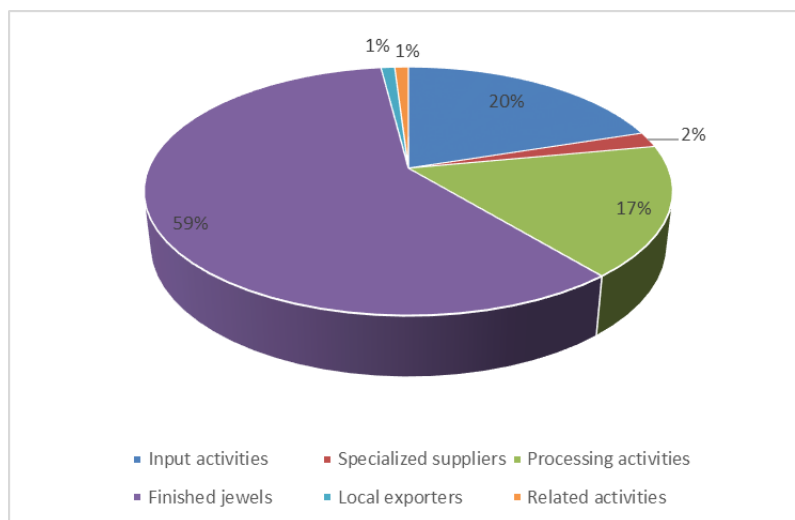
Fig. 5.3: Valenza district within the gold jewellery GVC



Source: own elaboration based on interviews and secondary data

In Fig. 5.4, it is shown how total district's turnover is distributed among the various productive steps: the largest share is produced by manufacturers of final jewellery (59%), followed by the firms involved in the input activities (which include dealers of stones and metals dealers, which unequivocally need huge financial bases to operate); the less profitable firms are specialized suppliers, which cover 7% of the share in number of firms, but only 2% in terms of total turnover.

Fig. 5.4: Valenza district within the gold jewellery GVC in turnover percentage terms



Source: own elaboration

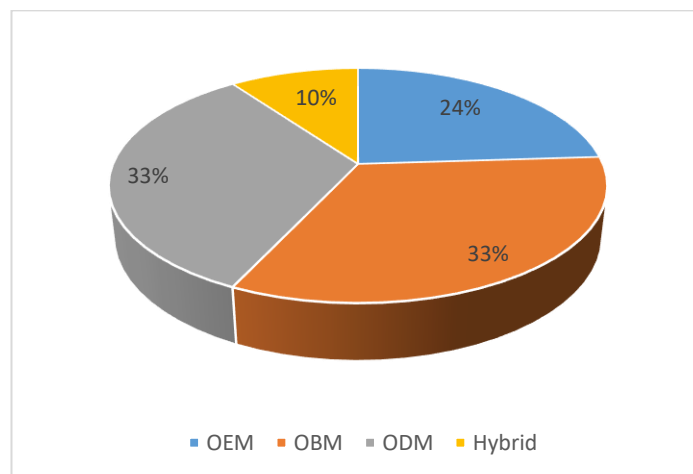
From the interviews, it emerged that Valenza's firms might be divided into four categories:

- Few strong, global brands, such as Bulgari, Crivelli, Damiani, Pasquale Bruni;
- A bigger group of companies which produce final products, whether branded or unbranded;
- Ten/fifteen OEM companies, which ensured to be selected as valid suppliers from bigger companies, both inside and outside the district;
- Artisanal workshop, specialized laboratories which mainly supply companies internal to the district.

This has been confirmed by the research on the district conducted afterwards, and it is visible in the classification of the manufacturers of final products using GVC framework terms.

In Fig. 5.5, a detail of how turnover is distributed among the producers of finished jewels, which are basically either strong brands or manufacturers – either OEM or ODM – whose products are then put in the market under others' logos.

Fig. 5.5: Turnover percentage of manufacturers of finished jewels



Source: own elaboration

5.5. Major elements in Valenza IDs firms strategies

5.5.1. Changes in the final markets destinations

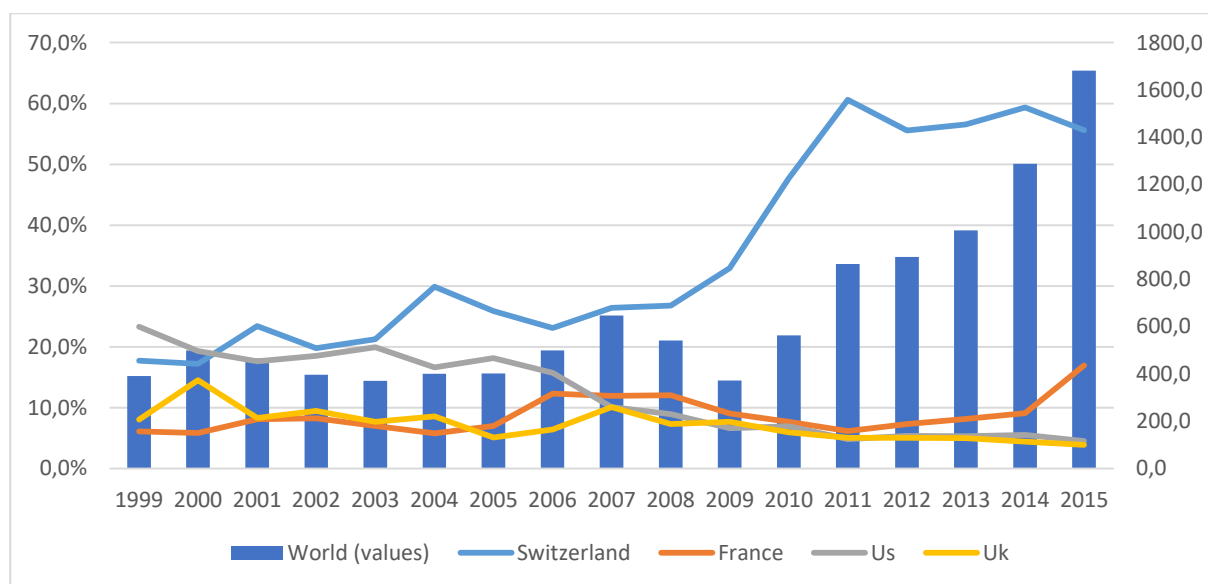
Below (Table 5.4), the shares of the most relevant markets: it is worth noting how US's share shrank from 19% in 2000 to 5% in 2015, whereas Switzerland increased from 17% to 56% and Hong Kong from 2% to 4%. United Kingdom, which in 2000 ranked third, with a share as high as 14.5%, in 2015 does not figure anymore on the top three ranking, being surpassed by France, which covers a percentage equal to 16.9% in 2015.

Table 5.4: Valenza's major markets 2000-2015

	Switzerland	US	UAE	Hong Kong
2000	85.7 (17%)	96.3 (19%)	12.6 (3%)	9.4 (2%)
2015	934.9 (56%)	76.1 (5%)	19.9 (1%)	60.8 (4%)

Source: COEWEB (Istat), referring to ATECO Code 32.1, Note: Millions €. Export in value terms.

Fig. 5.6: Top three export destinations in 2000 and 2015 (shares)



2000				2015			
rank	Country	Values (mil €)	share	rank	Country	Values (mil €)	share
1	US	96,3	19,3%	1	Switzerland	934,9	55,6%
2	Switzerland	85,7	17,2%	2	France	284,6	16,9%
3	UK	72,4	14,5%	3	Us	76,1	4,5%

Source: COEWEB (Istat), referring to ATECO Code 32.1

Table 5.6: Top export destinations (as of 2015)

	Var %					Mil. €	
	'00-'05	'05-'10	'10-'15	'00-'08	'08-'15	'00	'15
Switzerland	21,3%	158,3%	248,4%	69,1%	545,3%	85,7	934,9
France	-3,6%	53,8%	558,5%	123,5%	336,7%	29,2	284,6
Us	-24,3%	-46,7%	95,8%	-49,9%	57,7%	96,3	76,1
Uk	-71,8%	63,5%	93,8%	-45,5%	64,2%	72,4	64,8
Hong kong	72,5%	139,2%	56,4%	274,3%	72,5%	9,4	60,8
Spain	-2,3%	-24,5%	155,3%	32,8%	41,8%	18,7	35,1
Germany	-72,8%	80,5%	109,2%	-43,5%	82,0%	32,0	32,9
China	89,6%	1911,5%	783,5%	2706,0%	1100,7%	0,1	23,1
Emirates	39,9%	-11,7%	27,5%	80,0%	-12,4%	12,6	19,9
Russia	288,0%	-41,2%	165,7%	544,4%	-6,0%	2,0	12,2
<i>World Export</i>	<i>14,28%</i>	<i>110,20%</i>	<i>37,85%</i>	<i>6,64%</i>	<i>210,52%</i>	<i>1.038,9</i>	<i>3.440,4</i>

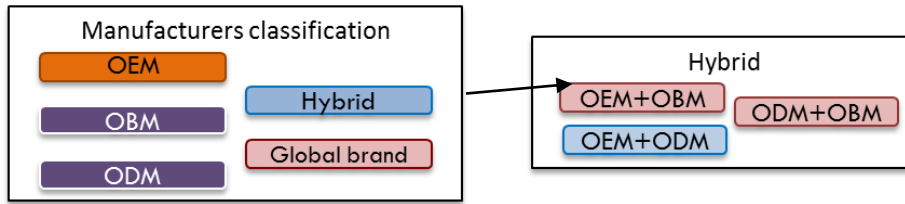
Source: COEWEB (Istat), referring to ATECO Code 32.1

In Table 5.6, a detail of the top export destinations as of 2015. Valenza's export patterns are way different than Vicenza's, as a confirmation of the higher value added in Valenza's production. Between 2000 and 2015 export towards Switzerland and France have increased incredibly: by 991% for the former and by 237% for the latter. Export towards UK and US, on the other hand, have decreased in the period between 2000 and 2015: by 11% for the former and by 21% for the latter.

5.5.2. Working for the big brands

As previously stated, it seems that Valenza exports are increasing at remarkable rhythm (an increase of 167% in tonnes as reported from Coeweb ISTAT data in period 2010-2015). On the contrary, in terms of number of employees and number of active firms, the district decreased from 2000 to 2014 respectively by 37.4% and 42.7%. Vicenza district, in the same period, assisted to a decrease in number of employees equal to 63% and in number of firms equal to 45.4%. As highlighted in the chapter related to the performance of Vicenza district, one of the reasons of the divergence in exports and demography patterns might lie in the fact that Valenza firms, given their smaller average dimension, traditionally work for others (OEM), thus in the district there are fewer branded companies that directly reach the markets. In fact, as it is visible from the GVC mapping, it results that firms who can be classified as OEM, ODM or both are more than 100, whereas OBM firms are few more than 50.

Fig. 5.7: Manufacturers classification



Source: own elaboration

Looking at the ranking of the first ten companies of the district in terms of turnover, it is evident that the best performers are branded companies. These companies fall exactly in the smallest category of the district today, that of globally recognized brands, which can count on the power of their image and celebrity. They do not represent the district as a whole, they are more an exception than a representation of the district; however, they seem to be big source of orders for smaller OEM district firms. Interviewees confirmed that those companies who were able to be recognized as a valid supplier for big brands better sustained this period dense in transformation.

Table 5.7: First 10 companies in terms of turnover

Company	Turnover 2015 (Millions of €)	GVC Classification
Bulgari Gioielli Spa	21.1	OBM
Casa Damiani Spa	14.5	OBM
Crivelli Srl	66.6	OBM
Raselli Franco Spa	50.7	ODM
Batazzi Metalli Preziosi	48.9	Metals dealer
Lombardi Srl	34.1	Hybrid
Recarlo Spa	24.9	OBM
Vhernier Spa	22.6	OBM
Pasquale Bruni Spa	19.4	OBM

Source: own elaboration on Aida data

As the theory on industrial districts confirms (see Chapter 2), the presence of leading firms and the relationships they hold within the district may affect the whole district. These companies, indeed, remains (or decide to locate) within the district since they are interested in the connection to suppliers and local partners and the knowledge behind (Whitford, 2001). It is thus crucial to understand whether the dynamic actors are acting

alone within the district or also other actors are following them, thanks to the complex networks of subcontracting. At this concerns, it seems that leading firms rely on subcontracting agreements, although suppliers must demonstrate to be able to effectively collaborate with them, with proper knowhow, quality standards, punctuality and quality of the offering. It seems that those traditionally OEM firms which were able to establish durable relationships with the strongest companies overcome the evolving environment, whereas those firms who were not able to adapt to the requirements of those dynamic actors collapsed. As the center of studies on industrial districts of Intesa San Paolo points out, there is no secret formula for district success; however, two factors are determinant: the presence of a big player within the district - leader both from a productive point of view and from a distributive point of view, making the district items international - and the presence of reliable and qualified suppliers (Il Sole 24 ore, 2016).

5.5.3. Upgrading from OEM to OBM

It was largely stressed how, given the small-scale of the average Valenza firm and their lack of communication and marketing capabilities, the majority of firms traditionally worked for bigger brands, avoiding direct contact with the final market. Gaggio (2007) reports in the words of Aldo Annaratone: “Valenza Po’s citizens have been given a natural gift, that of knowing how to produce, and a great disgrace, that of not knowing how to sell”.

Although to produce under orders seem to be a safer situation (manufacturers are able to plan their production and do not have to invest into market researches), more dynamics firms are aware that on the long run to exclusively depend on others’ orders might be dangerous, in case their clients turn to another supplier. When trying to upgrade to OBM, companies might face the risk to lose their previous customers, who might fear the once subcontractor has become a new competitor. It seems that the risk of becoming a competitor of the previous clients, and consequently losing their orders, is more vivid in Valenza rather than in Vicenza. In fact, in Vicenza companies that have recently approached the adventure of branded collections are mainly the chain makers, which supplied their clients with semi-finished products, whereas with the branded collection are reaching the market with a finished product, thus positioning in a different market segment of the supplied items, avoiding in this way the risk of cannibalization; on the

contrary, in Valenza the OEM producers might offer under their brand a product that falls within the same market segment as the unbranded production.

Di.Go S.r.l: an example of upgrading

Di.Go's experience exemplifies the trend to upgrade towards an OBM business, with the related risks and worries. Di.Go Srl, based on the assumptions made for this work, falls within the hybrid producers' category, since it is both an OEM company (subcontracting orders from international high-end jewellery distributors) and an OBM company, presenting its own collection under the brand *Valentina Callegher*. The company is focused on the production of unique, very high-end jewellery pieces (whose price is 5.000€ upwards); their products' distinctive feature is the massive use of color, wisely matching gold, precious stones and pearls, embodying Made in Italy jewellery tradition. It is a vertically integrated company, the only outsourced activity is casting (it requires too high investments in safety and pollution limits to justify the investment). The initial OBM adventure dates back to 1996, when the business was florid and there were no worries about emerging competitors and consumption crisis. The founder, however, thanks to his long-term vision, was aware that on the long run, to depend exclusively on others' orders would have been risky; he decided to gradually integrate the OEM production with a branded collection, starting to create the company's own identity. The OEM production is mainly for Italian internationalized companies - with whom Di.Go has long-time relations, they need to build a trustful collaboration - whereas the OBM production is mainly thought for foreign markets (and this reflects in different designs). Today, the company produces for 70% as an OEM for wholesalers and the big brands, and for 30% under the brand. Although the two businesses entails different products and do not compete, since they have different targets, at the beginning the company had to be very careful in initiating its branded collection, to the point that the businesses have two different plants, in order not to make the clients suspicious Di.Go wanted to compete with them. Today this is no more a problem: the company has shown that the designs and the targets are different; on the contrary, through the own branded collection, it has shown its clients its craftsmanship for very high-quality, one-of-a-kind pieces, obtaining orders from the sub-contractors also in that market segment.

5.5.4. Communication, marketing and training efforts

From the interviews, it emerges that Valenza firms fear and suffer from the increasing capabilities of the emerging competitors; however, they affirm that Made in Italy jewelry is still an argument:

“The Italian design and quality is a plus, and makes the item more expensive, but if clients are interested in quality, they see the difference. Designers are everywhere, but good handworkers are only here” (CEO, Hybrid 4).

However, this plus must be communicated, Valenza producers have to properly provide customers and retailers with arguments able to stress the difference with items coming from other countries. The sales staff has to be trained, they have to get the feeling of the company, of the history there is behind the product, otherwise they are not able to transmit it to the final customer.

Branded companies, thus, consider extremely important to train the sales staff about the philosophy that lies behind the unique item: this step was unnecessary in the past, and thus it is now a problem to overcome for companies with an old management, used to the golden age of Valenza.

“We have to promote our style, our creativity, our design which are unique: we have to sell the story that is behind every jewel of Valenza. We have to stress and claim that the items are made in Italy and to stress that we are here from 1922, so we have a story behind” (Commercial representative, OBM 4).

5.6. The role of local actors

The interviewees reported that a problem that today the district is facing is the absence of proper infrastructures: the jewellery activity implies that periodically clients visit Valenza firms; however, it seems there are not proper logistic connection and structure such as restaurants and hotels. The reasons for this lack might lie in the mindset of the typical Valenza's jewellery entrepreneur:

“The fault of this lies on ourselves: we were too concerned in doing our businesses that no-one thought about investing in infrastructures: in the past it was easy to be a jeweler

producer and to attract customers only through the products, whereas now we have to offer also other services” (CEO, OBM 1).

Consequently the loss of competitiveness experienced by the district, there have been some initiatives of collective actions promoted by local institutions – first of all, AOV, the Valenza goldsmith association – trying to find shared solutions to the changed environment.

AOV, Associazione Orafa Valenzana

The Valenza’s goldsmiths association, Associazione Orafa Valenzana (AOV)² – which has merged into Confindustria in 2014 – seems to be active in promoting collective initiatives. AOV was born in 1945 following the willingness of some goldsmiths in order to face together the difficulties present in the market in the post-war period. The birth of the association, which a month after the first meeting already organized 156 firms out of 250, strongly contributed to the diffusion of the imaginary of Valenza’s jewels and for the safeguard of the rights of the category. AOV hosts in its headquarters another association, Federpietre, an organization which includes the firms which commercialize precious stones.

In order to satisfy its associates’ requests, AOV constituted FIN.OR.VAL. S.r.l., a company charged to build in 1980 *Palazzo Mostre*, the location of the exhibition *Valenza Gioielli*. In 1989, always through the action of AOV, AOV Service S.r.l. was born, a company charged to offer promotional and commercial services to the firms of the sector.

The aims of the association are to promote Valenza and its tradition: its products are demanded throughout the world, for their originality and creativity.

Collective brand Di Valenza

AOV is one of the promoters of the Di Valenza brand, which aims at protecting the products entirely made within the district using certified techniques, material and stones, in order to offer a guaranty to the final consumer. Di Valenza brand, thus, certifies the origin of the items and guarantees their quality, their cultural and creative characteristics typical to the jewels that source from the culture and the tradition of

² www.comune.valenza.al.it/italian/oro.php?iExpand1=271

Valenza. It was previously stressed how firms which, in years preceding the recession crisis, whether invested in improving their design and distribution system being now competitive in international markets or became qualified suppliers for international or local brands have overcome the transformation in action. Firms that did not follow either of these paths, might pursue the viable option of collective action: through collective action and thanks to proper institution, they are able to contrast traders' power. The increased concentration in the retail system, especially in the US market, has forced the district manufacturers to satisfy the specific requests of big buying groups (Gereffi & Lee, 2008). These buyers require quick response, direct interaction with the producers, big volumes and diversified product line, in order to satisfy both low- and high-end market segments: this might be a problem for the district, given the small-scale of the Valenza average manufacturing firm. However, collective action might be a solution to address the big volumes clients require, guaranteeing a diversified offering. The mission of the consortium and of the brand is to guarantee the quality and the geographical origin of the products, to guarantee the respect of the European and Italian regulations in matters of respect of labor rights and environment, and to promote, support and defend its members' products from every unauthorized activities that could be prejudicial for their name and conception.³

Reproducibility of capabilities

In Valenza the problem of the reproducibility of the capabilities is perceived to be a consistent problem, definitely more than in Vicenza. The reason of this divergence is embedded in the different product the two districts propose: Valenza production entails more handwork, creating one of a kind, unique pieces, whereas Vicenza offers more standardized and industrialized items.

Although there are younger people interested into the business (thus, recognizing the tradition of the area), they seem to be more interested into the technological aspects of the process, being proficient with CAD and other computerized activities, whereas they are not interested in cultivate the traditional craftsmanship.

In Valenza there are two body of education specialized in the formation of the capabilities needed to work in the sector: the *liceo artistico Benvenuto Cellini* - which in the past it was more technical and practical, whereas now it is more concerned into

³ www.divalenza.it

design capabilities – and For.Al, a consortium which offer goldsmith courses, casting courses, and many courses for unemployed (Allio, 2010). Although these institution are still important, the main part of the training is still performed on the field, inside the firm; interviewees state that the school would not be able to transmit the tradition and the practices that one might acquire directly working within the enterprise.

Chapter 6

Vicenza jewellery district

6.1. History of the district in brief

Vicenza jewelry district includes the area in Veneto region that extends from the city of Vicenza to Bassano del Grappa and Trissino. The area vaunts a millennial goldsmith tradition: its origins date back to the Langobardic and Paleoveneto era (Cozzi & Del Mare, 1994); this tradition strengthened throughout the centuries and it led the district to be one of the most famous Italian industrial districts.

The district includes on the one hand many small and medium scale realities highly specialized which produce on subcontracting agreements; on the other hand there are big, industrialized companies which drive the district and make its products famous throughout the world. The production offered is broadly varied: it goes from high-end

jewelry items to trendy silver items, from traditional goldsmith items to semi-finished products such as clasps, mountings, chains in meter. Compared to the other two districts, Vicenza jewelry district has always been the most productive one in terms of quantity of gold processed and the first in terms of dimensions. Together with Arezzo district, Vicenza district leads the national gold production: as Unicredit (2011) reports, 30% of imported gold in Italy is then processed within the district; moreover, 30% of Italian gold exports come from Vicenza district. The offer today is wide, but the items that have traditionally characterized Vicenza production are two: machine made chains and watch components. Within the district, two macro areas might be defined, reflecting two different productions: chains are traditionally produced in the Bassano area whereas the other items' production is concentrated in the Vicenza area.

To confirm the ancient tradition in the goldsmith sector, Gaggio (2007) reports that Vicenza's jewelry reached the apex of its prestige in the fifteenth and sixteenth centuries, then it assisted to a period of crisis; nevertheless, the local tradition of jewelry making was never completely discontinued: "gold jewelry remained the symbol of the artisanal proficiency of Vicenza's citizens" (Gaggio, 2007).

The first formal artisanal goldsmith corporation dates back to the fourteenth century, with the testimony of the "Fraglia degli orafi", encompassing goldsmiths from Bologna, Venice, Mantova, Piacenza, Cremona, but also from France and Germany: this proves how Vicenza goldsmiths were recognized also outside the local community for their proficiency in the art. In 1860 the first school to promote and protect "minor arts" was founded (Scuola di Disegno e Plastica). In 1838 the Vicenza Fair was born: it soon became, together with London and Paris fair, one of the major center in Europe for the exposition of precious metals embellished with innovative machinery and techniques. In Vicenza the labor union were quite strong: the beginning of the twentieth century assisted to many strikes, the most relevant were those at Girardello and Vallotto firms; workers were asking for a reform in the labor rights and obligation, for an increase in the wages and for a reduction in the working hours. The wave of strikes resulted in the institution of a goldsmith cooperation, supported and financed by a Milanese company, Oreficerie Italiane, interested in supporting a cooperation aimed at contrasting the power of the private Vicenza firms. This cooperative, by the beginning of 1906, was already one of the largest jewelry firms in town.

With the first industrial revolution in the nineteenth century the district underwent a profound transformation, introducing first machinery in the production processes:

Vicenza's firms were the first to focus on reaching scale economies through the employment of machinery ensuring efficiency to the production, transforming gold jewelry into an industrial activity. The plants in Vicenza are the biggest in the sector; since the beginning of the twentieth century Vicenza gained the title of national capital of mass-produced jewelry: the average number of employees per firm increased from 15.8 in 1926 to 28 in 1937.

After World War II, the number of firms in the district flourished, many small firms (with 1 to 5 employees) were founded, each one specialized in limited phases of the production process, alongside some big companies such as Donnagemma, Biffi and Balestra. During the economic boom years, thanks to a profound renovation in the production system, processed gold quantity offered to the market was exceeding the local and national demand: Vicenza's goldsmiths started looking for new markets, thus increasing their export capabilities in particular with West Germany, Switzerland and France. From this moment on, Vicenza's goldsmiths were always more export oriented, becoming international.

In the late 1950s and early 1960s the district assisted to an entrepreneurial boom: the local leading manufacturers promoted the development of small businesses, organized in hierarchical networks linked by subcontracting relations (many of the new entrepreneurs were ex-workers who maintained close ties with their former bosses). During this economic boom, the average size of Vicenza's jewelry firms decreased from 28 employees in 1937 to 20 in 1951 and 12,6 in 1971. On the contrary, the number of jewelry firms increased from 40 in 1951 to 395 in 1971; in the same period, the number of employees increased from almost 800 to approximately 5.000 (Gaggio, 2007). In 1946, the Chamber of Commerce and the city government inaugurated a trade fair – VicenzaOro - that soon became the most important jewelry fair in Italy, and one of the largest in Europe. The number of participants doubled between 1958 and 1966, while the value of the transactions carried out at the fair quadrupled in the same year period. The success of the fair boosted Vicenza's jewelry exports. The export from Vicenza district doubled in the period from 1966 to 1970, reaching a volume worth 33 millions dollar.

During the last two decades of the twentieth century, the openness towards international markets was a preponderant characteristic of the district, also thanks to a wide and diversified offering compared with the past. In particular, during those years the district specialized in the production of fine jewelry and with higher value added (even though

the chain production – *catename* – still remains a peculiarity of the district). The pulverization in terms of number of employees per firm became one of the most peculiar characteristics of the district: in 1993, the biggest five companies were employing only the 10% of the total workers of the sector in the district. This pulverization finds its roots in the characteristics of the production: scale economies are not relevant in the sector, with the exception for the machine-chain production; low barriers to entry permitted the proliferation of new entrepreneurial realities. As it is often the case in the industrial districts, new firms were founded by artisans who were earlier employed, but then ventured their own business, specializing in a phase of the production. As it is common within industrial districts, relations among different firms are frequent, as a consequence of the division of labor among buyers and subcontractors.

6.2. Major elements affecting Vicenza firms' strategies

In the last fifteen years, as was mentioned in the previous chapter, the conditions of the global jewelry market have profoundly changed, as a result of the combined effects of many different forces, above all the changes in consumers' behaviors, the birth of new competitors coming from emerging economies, such as China, India and Turkey, the world recession crisis and the increased concentration in the distribution system.

All these elements translated into difficulties for Vicenza gold district firms: in the following section, a more detailed analysis of the factors affecting Vicenza jewellery district firms' strategy, as emerged from the interviews conducted.

- **Globalization and increased competition**

It has largely been stressed how Italian firms suffered from the increasing competition coming from emerging economies, which are able to offer similar products at a lower cost, relying on lower labor costs. From the interviews, it emerged that, as a response to the increasing competition from emerging economies, many Vicenza firms tried to gain from the labor costs differentials moving their production to low-cost countries, such as Thailand, Turkey, Romania. Nowadays, however, many of these companies are re-shoring, moving their production back to Italy. This re-shoring has many reasons behind: first of all, those countries are not so cheap anymore, their labor costs are increasing as well; companies have to deal with the problems related with the declaration of Made in Italy; there are also problems of copyright: it is impossible to

obtain an international protection from the imitation.

Moreover, globalization brought into the district the problem of the ever increasing imitation and thus the difficulty to stand against the price pressure: however, Italian firms can not sustain the price that firms from low costs countries can offer, thus Vicenza firms can not fight competition with price, but they can fight it with design and creativity:

“The only way to sustain the price pressure is to keep on offering a new design, new technology and new production techniques” (Chief designer, OBM 1).

It is clear, thus, how having a proper design capability is crucial to sustain competition; however, from the interviews it emerged that only the more dynamic firms are aware of this needing. On the contrary, the interviewees reported that the traditional close-minded, small-scale and subcontracting Vicenza firm does not recognize that it is fundamental to have an internal design function and that investing into employing an internal designer would help in creating an identity and thus in fighting price pressures.

- **Pressure from the distribution system**

Vicenza firms, being mainly unbranded, have traditionally largely related with wholesalers and strong buyers, thus being distant from the final market and being able to capture only a fraction of the value. International buyers value Vicenza's and Italian production for its quality and design. On the contrary, however, they complain about the incapability of Vicenza's manufacturers to adapt to the changing needs of markets and consumers: they report inefficiencies in the product supply in terms of flexibility, delivering times and marketing and brand policies (CREI, 2011). Vicenza manufacturers' clients (basically branded manufacturers, buyers and wholesalers) are normally way bigger than them – and in particular for what concerns US buyers, many of them are increasing their concentration through incorporations and acquisition, thus increasing their strength - thus they hold stronger bargaining power in fixing prices, quantities and standards.

From the interviews it emerged how this fragmented distribution system - embedded in the history of the district – in prosper times did not constitute a problem, whereas more recently has once again confirmed the inadequate competitiveness of many of Vicenza firms. The interviewees, in fact, report the difficulties manufacturers face when relating

with these big players, who often set the rules of the games, exercising pressure on price, quality, quantity and delivery timing. However, it is difficult for Vicenza manufacturers to get rid of these actors: since companies in the district are mainly unbranded producers, with a manufacturing mindset, they are far away from the market, whereas the buyers and the distributors are the ones who know the market, the ones who have the contacts with the store chains or the independent stores. The interviewees reported the weak bargaining power that Vicenza firms have when relating with the big international buyers and wholesalers:

“Although the companies in the district perform all the production steps, and the products could be set directly into the windows of the stores, they only capture 10% of the value: all the rest is in the hands of these intermediaries” (CEO, Hybrid 1).

Despite the pressures exercised by these actors, interviewees reported how these figures remain fundamental for manufactures, since they act as intermediaries for markets that would otherwise difficult to reach (in particular, Dubai buyers ensure the distribution to the Middle East market, thus Iran, Iraq, North Africa; Hong Kong buyers instead ensure the distribution to the Far East market, China, Vietnam..).

“Historically, they have always bought often and always in big quantities, and also with good ways of payment because they anticipate the metal for those who need to work in conto lavoro, thus if they offer these conditions, they also want to set the rules of the game” (CEO, Hybrid 3).

Fig. 6.1: Distribution strategies of Vicenza district's firms



Source: own elaboration

And in fact, from the Vicenza GVC mapping (Fig. 6.1), it results that almost 100 of the almost 200 manufacturers of final products analyzed rely on wholesalers for the distribution to certain markets, thus being almost half of the total manufacturers of finished products considered.

Relating to the problem regarding the distribution system and the dependence on these big players, interviewees stressed once again the importance of the design content as a way to improve Vicenza firms' bargaining power:

"The rules set by the wholesalers depend on the product firms are offering: the more different the product manufacturers offer, the more manufacturers can demand for better conditions" (CEO, Hybrid 3).

These players are so strong that they forbid some companies to go to the Dubai's edition of VicenzaOro because they were afraid that then the company would get rid of them, getting to know better the markets and bypassing their role.

Although the pressure exercised by these buyers is strong, it seems that it is worth to bear it: as a manufacturer reports, for example, to rely on wholesalers in the US market means to have access to different distributive channels, such as catalogs, TV channel, jewellery chains and department stores. The same holds for the Chinese market – Chinese buy through Hong Kong to avoid high duties – once a manufacturer relies on Chinese wholesalers is aware that his design is in risk of forgery, but still it is worth the risks:

"They ensure large orders, thus if you want to work with them you have to accept these conditions and risks" (CEO, Hybrid 3).

Another problem that has emerged from the interviews is the fact that, when dealing with markets that are so distant from Italy, it is difficult to control, once that the merchandise arrive in Hong Kong, how it is shipped from there to the other countries and the price policies that are applied. However, interviewees reported that wholesalers do not turn to Italian manufacturers for price convenience, rather for quality and design content: Made in Italy still has a value, they buy Italian items to increase their image, not for copying it and thus the risk of counterfeiting is contained.

- **Increased concentration in the distribution system**

Another problem affecting the performance of the small producers is the recent stronger concentration on the distribution side (see Chapter 4). In UK, US, Europe, the importers are becoming much bigger because they represent big discount chains and bigger jewelry chains, and often they do not want to deal with a multitude of small manufacturers, but prefer to deal with bigger suppliers who can guarantee them with their requested orders and requested amount of quantities. This could be a problem for Vicenza's district: it is composed by many small firms, which might get pushed out of the market since they might not guarantee the amount of items required. One solution might be an increasing in concentration also on the production side through mergers and acquisitions. However, it seems that an increase in concentration in Vicenza is unlikely to happen: producers are competitors, they fight, traditionally in the district there has not been the tradition to cooperate, on the contrary there has been strong closeness for fear of copying.

This has been confirmed by interviewees' opinions:

"I hope that we will join and in some way collaborate together but I don't know whether we will have the chance. Everybody is very jealous about their customers, their technology, even without reasons: and this is a threat for the reproducibility of the district" (CEO, Hybrid 3).

"The problem, to me, is that there has been and there is still not enough integration among the companies. There is this closeness that will only be harmful" (CEO, Hybrid 2).

- **Difficulty in adapting mindset to the change in action**

All these external factors have profoundly affected the district's performances and demography; however, one major reason of the uncontrollable decline – as has often been highlighted in the interviews – comes from within the district, that is, the difficulty for many companies to read the change in action and to promptly react to it.

As reported in Gaggio (2007), in the past to have a business in the goldsmith sector ensured higher income; however, more often than not entrepreneurs found it difficult to keep focused on their business and to invest in their businesses in order to be prepared for the future. This refuse to recognize the changes in action, and to accordingly adapt

strategies, has largely been stressed by the interviewees:

“I am convinced that one of the major reasons of the decline of the district has been the refuse to understand that the environment was changing” (Chief designer, OBM 1).

“In our sector it was very easy, maybe too easy to earn money: and when you have a lot of money, it is difficult to keep focused and invest in your business” (CEO, Hybrid 1).

Time ago, for a producer it was enough to have a connection with Dubai market, then he would be sure to sell anything he presented. Thus, sure to gain a profit, the old producers were not able – and did not need to - to read the changes in action in time and to react to it. It seems difficult, now, for the old manufacturers to change their mindset and to adapt to the new environment.

“Time ago, if you wanted to be rich, you better start your jewelry business. There was no problem regarding marketing, design, communication. It was enough to arrive in Dubai and you would sell anything you presented. And you were happy” (Chief designer, OBM 1).

On the contrary, nowadays, in order to face the challenges the new environment is offering and to be competitive, companies need technology, communication and innovation to adapt to the requirements of this new world. In order to address the external world, companies need to gain visibility; on the contrary, within the district there are some companies that do not even have a website, a brochure or a catalog: it is not possible to communicate with the external world if they, firstly, do not have an internal structure.

It has frequently been stressed how, on the contrary, the companies that survived, and that today are the strongest, are those firms that implemented strategies of focusing in quality, in design, in styles and in models. Who is still resisting today are those firms who had the capability and the lucidity to understand the change in action and to react to it, to adapt to it.

In Chapter 4 it was described how jewelry firms suffer from the changes in consumers' behavior, namely a request for constant novelty (imposing to jewelry manufacturers timings that are typical to fashion), a loss of interest into traditional jewelry, more attention to branded products, interest into new materials and request for a customized product. This increasing interest into branded products is a challenge for Vicenza firms,

traditionally mainly unbranded.

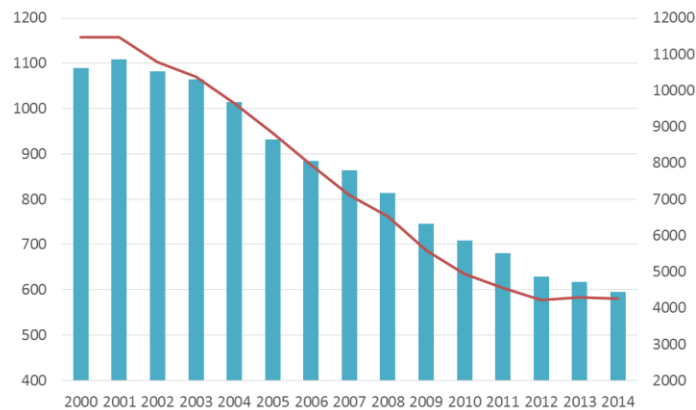
Jewelry items' lifecycle has recently dramatically shorten: manufacturers are asked to propose new offer more frequently, to present new collections several times per year in order to satisfy the continuously changing market demand. At this concern, the district shows its inadequacy and its weakness towards what it is a fundamental competitive advantage: the capability to constantly innovate models, allowing for a personalization or customization of the products, satisfying customers' requests. Moreover, many Vicenza's manufacturers lack of strategic planning, they avoid investment in research and development: the reasons might lie in the fragmentation of the production system and in the existence of many small-scale enterprises.

6.3. Describing the recent transformation

6.3.1. Demography

The loss of competitiveness and the general reduction in exports resulted in the closing down of many activities, and the number of workers employed in the sector has dramatically decreased. In particular, in the period 2000-2014 Vicenza's firms involved in the goldsmith activities decreased by 45.4% (firms amounted to 1.090 in 2000 and to 595 in 2014). The decrease in number of employees is even starker: it amounts to 63%, passing from 11.473 in 2000 to 4.264 in 2015 (Fig. 6.2): it is visible how the drop has been extremely dramatic.

Fig. 6.2: Demography of Vicenza: Firms (bars, left axis) and Employees (lines, right axis)



Source: Own elaboration on ISTAT data

6.3.2. Performance

In 2015, Vicenza's exports amounted to 1.476,7 millions of € and covered 22.6% of Italian jewelry exports (Istat data), thus confirming the relevance of the district; however, if compared to 2000, Vicenza's world exports decreased by 78% in quantity terms (Coeweb ISTAT data) and by 24% in values terms; in the same period gold price increased by 240%.

The reasons of the crisis suffered by Vicenza's products is to be found in a loss of competitiveness in the international competitive arena. Italian manufacturers, indeed, have been substituted by lower-costs suppliers, based in China, India, Thailand and Turkey, who starting from 2000 have strongly increased the quality of their production and their ability to deeply penetrate the market. In Table 6.1, export variations in values and in quantity terms are shown: it is evident how the district assisted to a dramatic decrease in performance.

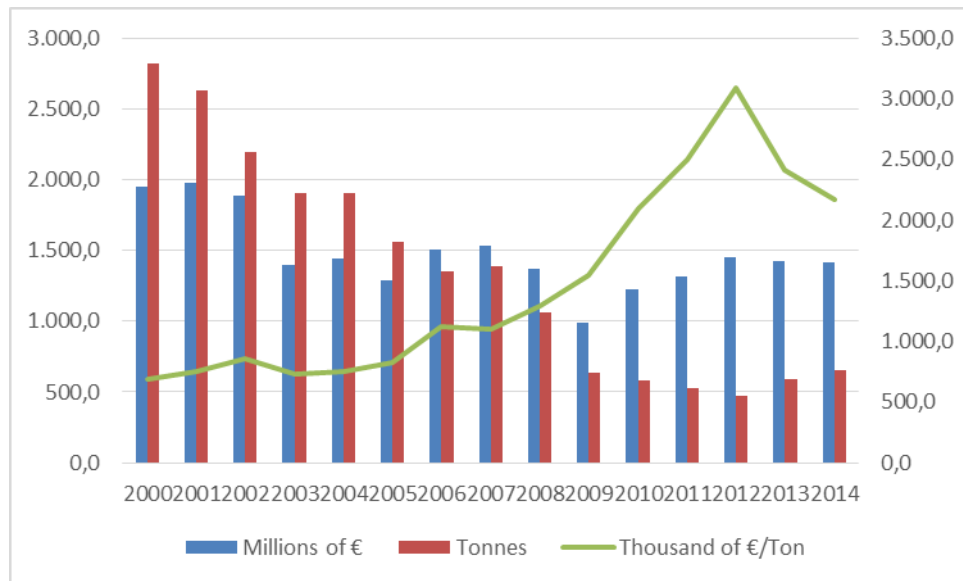
Table 6.1: Vicenza's export variations

	Values				Variations			
	2000	2005	2010	2015	% '00-'05	% '05-'10	% '10-'15	% '00-'15
Values	1.946,0	1.284,0	1.221,1	1.476,7	-34%	-5%	21%	-24%
Quantity	2.823,8	1.559,9	583,4	630,1	-45%	-63%	8%	-78%
Gold price (Thousands €/Ton)	689,1	823,1	2.093,2	2.343,6	19%	154%	12%	240%

Source: own elaboration on Coeweb ISTAT data, Note: data refer to ATECO code 32.1

In Fig. 6.3 it is visible how distant 2015 exports are from the quantities exported in the early 2000s; moreover, it is visible how the price of gold has dramatically increased during these years: this is very relevant in the gold jewellery industry as the raw materials used make up a large part of the final price of the product.

Fig. 6.3: Vicenza world exports: Millions of € (blue bars, left axis), Tonnes (red bars, left axis) and Price of gold (line, right axis)



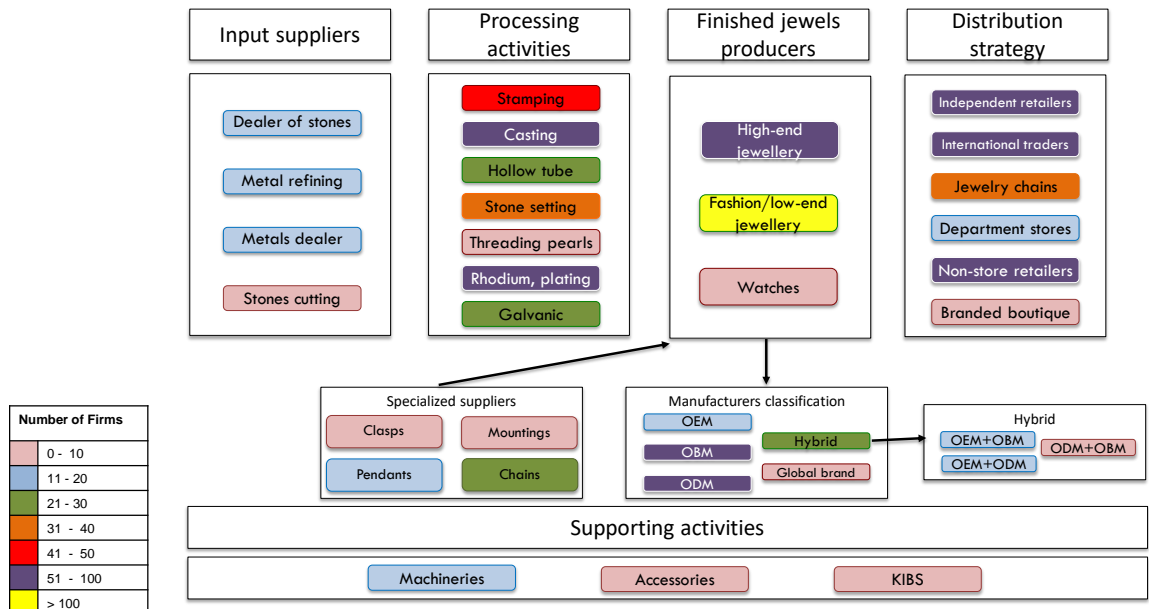
Source: own elaboration on Coeweb ISTAT data and World Gold Council data

6.4. GVC mapping of Vicenza district

According to the picture emerged from the interviews, from leading experts' opinions and from researches, in Fig. 6.4 it is shown, in GVC framework terms, how the district is composed today, weighted according to the number of enterprises involved in each activity steps performed within the district. Note that this is an approximate picture I made basing on the interviewees opinions triangulated with secondary data information. It is worth noting that more than 50% of the almost 400 firms considered for the analysis offer finished jewels to the market; 9% of the firms are specialized suppliers (supplying semi-finished products such as chains, bracelets and components such as clasps, mountings...); and 6% of total firms are specialized in processing activities, thus being casting, galvanic, engraving laboratories: fragmentation of productive process is

not remarkable. It is notable that 8% of the total firms are involved in related activities, being suppliers of machinery for the jewellery industry, 3D printing specialized or KIBS (knowledge intensive business services) focused on the sector, thus offering design, marketing consultancy properly addressed to firms involved in the jewellery activities.

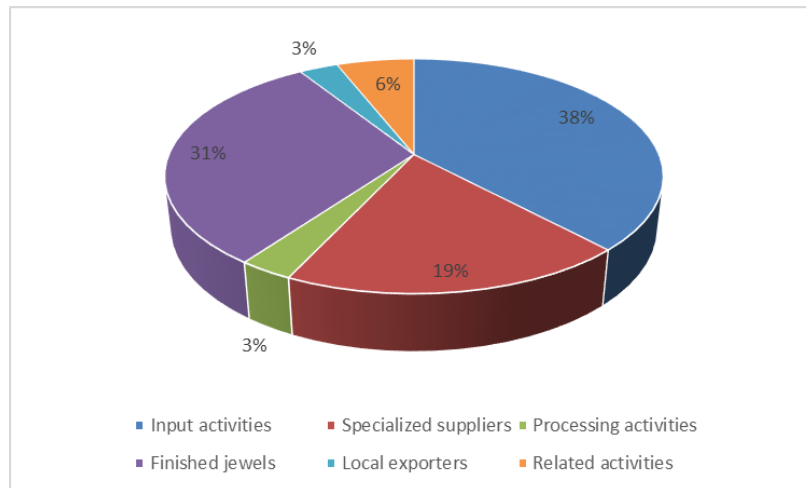
Fig. 6.4: Vicenza district within the gold jewellery GVC



Source: own elaboration

In Fig. 6.5, it is shown how total district's turnover is distributed among the various productive steps: the largest share of turnover is produced by manufacturers involved in the input activities (38%), since they include large metals refining companies such as Legor Spa, followed by firms which produce finished items (31%) and specialized suppliers (19%), since this category also encompasses large chains producers.

Fig. 6.5: Vicenza district within the gold jewellery GVC in turnover percentage terms



Source: own elaboration

Focusing on producers of final products, from the interviews it emerged that they might be divided into three categories:

1. Companies which produce for international jewellery brands; they qualified as qualified suppliers and thus ensured large orders from leading brands. These companies have a high innovation and technology, to ensure the collaboration with important foreign brands; they constantly invest in some new machinery to make sure international brands will choose them for collaboration.

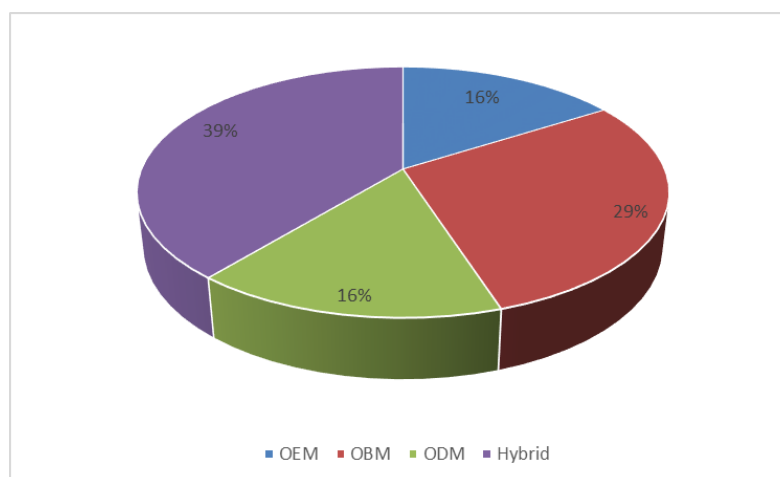
This is the strongest category nowadays: it has an entry barrier constituted by the huge investment needed for innovation and machinery. The companies in this categories work with international brands both of the jewellery sector (such as Swarovski, Pandora, Tiffany) and of the fashion sector (such as Bottega veneta, Louis Vuitton, Gucci), since they need to produce large quantities to amortize the costs of the investment. These companies are traditionally OEM businesses; however, a recent trend is their attempt to launch their own branded collection, thus moving towards higher value added activities – as will be shown later on. Chains producers, traditional of the district, fall within this category: Better Silver, Karizia, Chrysos.

2. Unbranded companies with own design capabilities (ODM): these companies constitute the biggest share of the district.
3. Branded companies: this categories encompasses both brands that are internationally recognized – such as Marco Bicego, Fope, Roberto Coin, and

small companies. This category represents almost half of the producers of final jewelry.

This representation has been confirmed by the research on how firms within the district populate the GVC; and in Fig. 6.6 it is shown how turnover is distributed among producers of finished jewels.

Fig. 6.6: Turnover percentage of manufacturers of finished jewels



Source: own elaboration

6.5. Major transformations in Vicenza IDs firms strategies

Although all the factors mentioned above profoundly challenged the district, from the interviews emerged that, at least for what concerns the more dynamic firms, many companies actively reacted to the changes in action, adapting their strategies to the new environment. In particular, all the interviewees reported that the companies which survived the waves of crisis are now stronger than before, they overcome difficulties and are now stabilizing, and those companies who instead collapsed, they – sad but true – had to: it seems that there has been a sort of “cleaning process”, in particular during the recession crisis period. In the next sections, a description of the main reactions in strategies adopted by firms to react to the transformations, as emerged from the interviews and from the GVC mapping.

6.5.1. Changes in final markets destinations

One of the strengths of the district is still today its strong connection with foreign countries; it is still globally recognized for its importance. Although - as stressed before – Vicenza’s exports in period 2000-2015 decreased by 31%, it is interesting to see how, in the same period, the final destination of the products have profoundly changed.

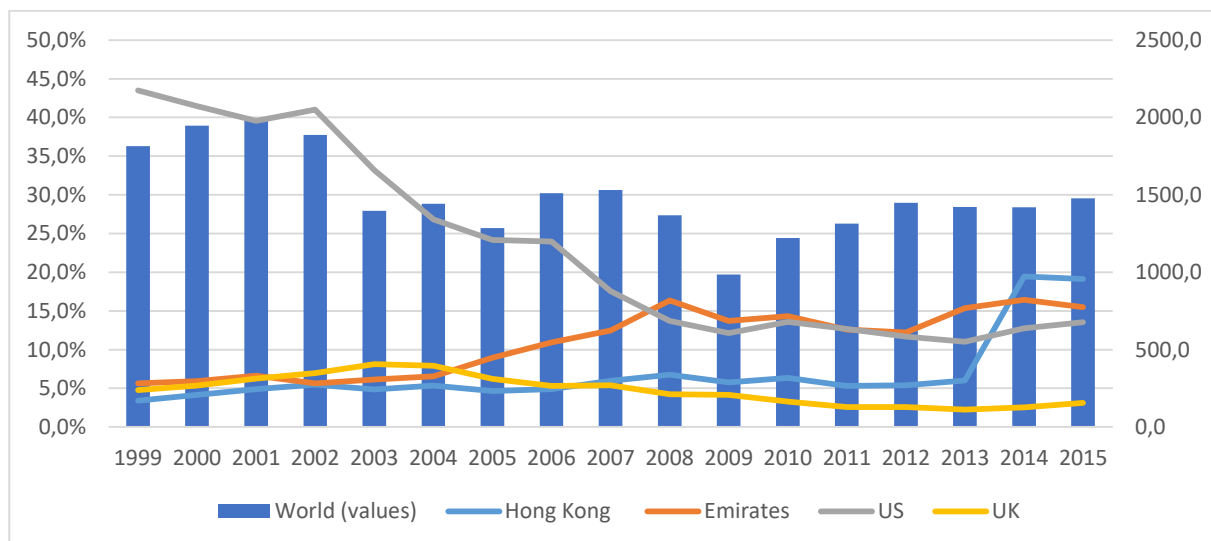
Below (Table 6.2), the shares of the most relevant markets for the district firms: it is worth noting how US’s share shrank from 41% in 2000 to 14% in 2015, whereas UAE increased from 6% to 15% and Hong Kong from 4% to 19%. United Kingdom, which in 2000 ranked third, with a share as high as 5.4%, in 2015 does not figure anymore on the top three ranking, being surpassed by Hong Kong.

Table 6.2: Vicenza’s major markets

	Switzerland	US	UAE	Hong Kong
2000	57.5 (3%)	807.2 (41%)	115.1 (6%)	81.1 (4%)
2015	89.0 (6%)	200.0 (14%)	228.4 (15%)	282.4 (19%)

Source: COEWEB (Istat), referring to ADECO Code 32.1, Note: Billions €. Export in value terms.

Fig. 6.7: Top three export destinations in 2000 and 2015 (shares)



2000			2015		
rank	Country	Values (mil €) share	rank	Country	Values (mil €) share
1	US	807,2 41,5%	1	Hong Kong	282,4 19,1%
2	EMIRATE	131,4 5,9%	2	Emirates	228,4 15,5%
3	UK	104,1 5,4%	3	US	200,0 13,5%

Source: COEWEB (Istat), referring to ADECO Code 32.1, Note: Billions €. Export in value terms.

US is still the third most relevant market to Vicenza (14%), although the export towards US in period 2000-2015 shrank by 75.22%, with a peak in decrease in the period '00-'08, with a shrank equal to 77%. UK's share shrank by 56% in period 2000-2015. Honk Kong and the UAE, on the other hand, incredibly increased their relevance: in period '00-'15, Hong Kong's share increased by 248% and UAE by 98%.

Table 6.3: Top export destinations (as of 2015)

	Var %					Mil. €	
	'00-'05	'05-'10	'10-'15	'00-'08	'08-'15	'00	'15
Hong Kong	-26,5%	30,1%	264,5%	14,3%	204,9%	81,1	282,4
Emirates	-0,4%	52,5%	30,6%	94,3%	2,1%	115,1	228,4
US	-61,5%	-46,6%	20,6%	-76,8%	6,8%	807,2	200,0
Switzerland	-35,2%	290,7%	-38,8%	43,8%	7,7%	57,5	89,0
Jordan	48324,0%	-49,8%	83,3%	24608,6%	80,2%	0,2	68,3
Romania	269,8%	898,8%	512,7%	2876,5%	660,2%	0,3	60,1
France	-8,7%	-8,1%	-23,6%	-5,1%	-32,5%	84,2	54,0
Turkey	25,0%	-1,3%	88,7%	80,9%	28,7%	22,8	53,1
South Africa	11,6%	-68,7%	924,9%	-51,6%	638,5%	14,7	52,8
UK	-23,3%	-50,2%	14,6%	-44,4%	-21,2%	104,1	45,7
World Export	-34,0%	-4,9%	13,5%	-29,7%	7,9%	1946,0	1476,7

Source: COEWEB (Istat), referring to ADECO Code 32.1, Note: Billions €. Export in value terms.

These exports patterns are noteworthy since it is true that Italian manufacturers have been substituted by lower-costs suppliers, based in China, India, Thailand and Turkey, who starting from 2000 have strongly increased the quality of their production and their ability to deeply penetrate the market; but on the other hand these emerging economies have also constituted new opportunities for the district. At the same time, to target these market entails many challenges as well; it requires new capabilities to interact with countries that until that moment were unknown. In particular, it has been reported how,

given the impossibility to gain an international protection on copyright, once the merchandise reaches Dubai or Hong Kong, it is immediately copied and then offered at a cheaper price. The only way to sustain this competition is to invest into design and creativity capabilities, capabilities that Italian are traditionally known for; Made in Italy is still an argument, but it has to be constantly innovated.

“Italian companies cannot compete with low costs countries, but they still can count on design and quality: Made in Italy still has a value for the buyers, but these buyers require continuously a new product. Thus, in order to sustain Made in Italy prices, Italian firms can only continuously present a new product, with new design and new production techniques, and invest in machinery in order to guarantee a lighter product, to provide a less expensive product” (Chief designer, OBM 1).

6.5.2. Changes in the offering: product upgrading

Interviewees reported that Vicenza firms are trying to upgrade the offering through differentiation and improvements in quality. In the last ten years, in fact, there have been attempts to move from price sensitive market segments to market segments more interested in the design, in the quality and in the image. These improvements led the company to search a stronger collaboration with the distributors (in order to preserve the image), and to internally develop marketing and communication competencies.

Expansion of the offering

In more recent years, facing the crisis, the district tried to adapt to the changes in consumers' behaviors and requests. The offering has become broader, including, beside the traditional items, silver and gold jewels following different styles (both modern and ancient), fine jewelry with and without stones, high-end jewels with precious stones, but also fashion silver jewels and semi-finished products. The actual production has changed if compared with the production of some decades ago, when Vicenza was the first producer of medals, wristbands and machine chains: this was achieved through the introduction of new machineries and new production techniques, and through the consolidation in the commercial phase, exercising a stricter control on the distribution strategies.

Vicenza goldsmith presents, beside the huge number of small artisanal firms, relevant industrial realities provided with advanced technologically machinery, able to produce

large volumes of production of chains, bands and medals containing costs. These items have for long constituted the traditional Vicenza's production, whereas in more recent years, offering has widened: the production has turned from heavy items to lighter products (to contain costs of raw material, a technique to reach a lighter chain for example is to use the technique of the hollow tube), to more refined jewelry and to higher value-added production.

Chain production still remains a characteristic of the district, and it is mainly concentrated in Bassano area, where companies larger than Vicenza average can be found. Chain producers are usually medium-big scale companies, with a bigger number of workers and a massive use of machinery, since scale economies are achievable.

Analyzing the district with a GVC approach (Fig. 6.8), it appears that of the almost 200 analyzed firms that produce final jewelry, less than 50 firms produce using silver jewelry exclusively, more than 100 using gold exclusively (thus confirming the predominance of gold, as it was in the tradition), less than 50 use both silver and gold, less than 10 firms use gold, silver and other materials. The firms using exclusively materials different from gold or silver (that is, brass, steel, iron, leather...) are less than 5, the same for use of silver and other materials. It is surprisingly to note that, notwithstanding the dramatic rise of the price of gold, firms continue to use it as a preliminary material, instead of producing using cheaper materials.

Fig. 6.8: Material used



Source: own elaboration

On the contrary, instead, there are strong companies external to the district – such as Pandora, Rebecca, Brail – who large use these materials, and their turnovers prove that it is a strategy that works.

From the interviews emerges that the reason for this divergence lays on the structure of the district: being more than half of the district composed by unbranded companies, they could not offer to the market items made out of cheap materials:

“Jewelry is often bought as a gift. But to be given as a gift, items must be either branded or made out of precious metals” (CEO, Local Institution).

Serving a new market segment: attention to younger customers

Younger generation are distant from traditional jewelry (as shown in Chapter 4). Many Vicenza firms, thus, are trying to address this generation, offering modern collections, distant from the classic design of traditional jewelry and closer to fashion world.

In jewelry sector, distribution system is distant from the younger generation and it is too traditional. Especially in Italy, the distribution system is obsolete, it seems that customers are more advanced than the distribution, which is slow in proposing new trends. There is this increasing trend (see Chapter 4) of conceiving a jewel as an accessorize to complete an outfit, however it is also difficult to find the right fashion stores which believe in the total look approach. The traditional jewels store are too classic and obsolete: if they offer always the same products, at some point the costumers will stop buying. Customers want novelty, especially the younger generations who have large willingness to pay, such as the Middle East young and rich generations:

“Who has money now wants novelty. It seems there is a sort of social and cultural revolution in those countries, young generation studied abroad, are fashion oriented, and not so attached to the material and thus classical jewelry as the older generations. In the Arabic markets, customers are insatiable, they want continuously new and high products, and Made in Italy is still an argument” (Chief designer, OBM 1).

In this sense, to turn to fashion channels means different customers but also different distribution strategies. Fashion distribution means: high-level department stores (to be inside a department store increases the brand image), concept stores, flagship stores, shop in shop, corners.

6.5.3. Changes in the activities performed: functional upgrading

OEM as a safer business

Traditionally (Gaggio, 2007; Gaibisso, 1995), within the district branded companies and medium scale and structured companies resort to subcontracting (*conto-terzismo*) in order to ensure flexibility: there are still many firms which count on district's capabilities. Subcontractors – which, using the GVC's language we can define whether OEM or ODM, depending on the agreements they have with their clients - mainly work for other district companies, although there are cases in which international brands recur to Vicenza's proficiency in the jewelry sector. In particular, these OEM (or ODM) companies, which ensured the collaboration of international brand, and thus can count on large orders, seem to be the companies that perform better.

When the recession hit, in 2008-2009, the companies that were hit the hardest were actually the smaller brands rather than the bigger OEM suppliers that had more stabilized markets and could count on orders by their big and strong clients. It is interesting to see, indeed, that in Vicenza, where OBM companies are more present if compared to Valenza, the crisis hit the harder (in Vicenza active firms passed from 1.090 in 2000 to 595 in 2014, with a decrease of 45.4%, whereas in Valenza firms decreased by 42,7%, passing from 1.414 in 2000 to 810 in 2014). The fact that in Vicenza there are more branded companies could be the reason why the crisis hit the harder, since that is the more fragile segment. Indeed, as shown in Table 6.4, only one (Roberto Coin Spa) of the first ten companies in terms of turnover is an OBM business, whereas the other are chains manufacturers, thus supplier of the big international brands, or OEM or hybrid, that is OEM companies who also have their own collection. From the interviews, it emerged a trend towards OEM business, as a response to the crisis and as a means of ensuring more stable markets. In particular, although there might be differences from company to company, it emerged that eight, ten years ago a company's business could be defined 70% OBM and 30% OEM, whereas nowadays the OEM share of business seems to be increasing.

“I think that Italian companies are very good in manufacturing, with a strong knowhow in the goldsmith tradition. However, we are focus in on production, whereas we are not

so strong on the marketing or commercial side, so that's why the OEM business is increasing in relevance, because clients want us to ensure good skills and knowhow about the production, and leaving them to deal with marketing and sales activities" (CEO, Hybrid 3).

Table 6.4: first ten companies in terms of turnover

	Turnover (Millions of €)	GVC Classification
VIERI S.P.A.	143.7	Supplier
FILK S.P.A.	119.6	OEM
ASOLO GOLD S.P.A.	112.2	Hybrid
ALESSI DOMENICO S.P.A.	64.3	Supplier
CHRYCOS S.P.A.	53.4	Hybrid
LAC S.P.A.	49.6	Supplier
ROBERTO COIN S.P.A.	48.3	OBM
FLAVIO FRACCARI S.R.L.	42.1	Metals dealer
BETTER SILVER S.P.A.	38.6	Hybrid
KARIZIA S.P.A.	37.9	Hybrid

Source: own elaboration on Aida data

In Valenza's district the OEM business is more rooted, since they need to work with big brands: they traditionally are too small to reach the market selling their own collection (remember that the average size of Valenza's firm in 2000 was 5,7 vs Vicenza where it was 10,5; now they are converging: the average employees in 2014 was 6,2 in Valenza and 7,2 in Vicenza). The difference between Vicenza's and Valenza's OEM business, according to interviewees, is that in Valenza the companies involved in this business are exclusively working on orders, whereas in Vicenza the OEM business is parallel with the OBM business, companies are also working on their own distribution, only few firms in Vicenza work exclusively for the brands.

The OEM companies are getting more numerous, and this seems to be a safer situation:

"The OEM is a safe business, the profit is lower, but it is safer because the big brands plan the business, they give you the planning of the production. I mean, it is safer if you have twenty customers of these. If you work exclusively for Bulgari, as many companies in Valenza are doing, it could be risky. Well, it is also in the policy of these brands to help you and to guarantee orders because they know that they need your company, so

this is the good side of working with these customers” (CEO, Hybrid 3).

Functional upgrading: increased relevance of the brand

Beside the trend towards a reinforcement of their OEM business, from the interviews emerged that many companies – mainly the strongest ones, which can count on a large clients base and can afford the investments required - are trying to upgrade building OBM capabilities (which involves marketing and communication efforts in order to reinforce identity).

The majority of Vicenza’s manufacturers do not produce under their own brand, but rather supply a finished product to which then the distributors or the international brand put their logos on. The obvious consequence is a lack in loyalty to the producer on behalf of the consumer, and thus distributors and international brands can easily switch to other manufacturers without risking a loss in purchases shares (Crestanello, 2009). In particular, Chinese and Thailand manufacturers manage to offer items at lower costs, exploiting the labor costs differential; moreover, they seem to perform better than Italian producers in terms of services, such as flexibility, customization and response quickness. As a response to this increasing competitive pressure, many Vicenza’s jewelers are reacting increasing their communication efforts, improving qualities and design, moving towards upper segment of the market.

It seems that the creation of the brand is becoming a trend; in particular many traditionally OEM companies are experiencing their own brand adventures.

This moving towards brand building and different distribution channel, indeed, seems to be a trend. Companies are facing a world that is moving away from the tradition, moving into lifestyle and fashion, and in this world brand plays a central role. Traditional chains producers of the district have recently launched their own brand: Better Silver with Roma 1947, Karizia with La Dea Bendata, Chrysos with Officine Bernardi, Asolo Gold with Bizzotto Gioielli; it is remarkable that all of these companies rank between the first ten companies of the district in terms of turnover (Aida data). Obviously, it is not possible to determine how much does the introduction of the own branded collection affect the increase of the turnover, however, it is interesting to note that all the companies who seek to increment their OBM business have increased their turnover (Table 6.5), with the exception of Better Silver, although the company firstly introduced the branded collection in the second part of 2015, thus positive results may not yet be visible.

Table 6.5: impact of OBM business

	%Δ Turnover 10-15	% Δ Turnover 05-10	% Δ Turnover 00-05	% Δ Turnover 00-15
ASOLO GOLD S.P.A.	48%	n.d.	n.d.	n.d.
CHRYsos S.P.A.	57%	85%	20%	249%
BETTER SILVER S.P.A.	-32%	47%	-7%	-7%
KARIZIA S.P.A.	2%	199%	-21%	143%

Source: own elaboration on Aida data

It is clear the role of the brand as an upgrading process: once, the capabilities were about having a know-how in the supply chain management and good relations with the traders, whereas now, new capabilities of innovation, marketing, communication and design are required.

When companies want to affirm their brands, they have to ensure that the identity of the brand is well defined through the distribution. Thus, they can not rely on those 10-15 big Dubai wholesalers to communicate the brand image, they need instead a direct relation.

Having a brand is a great way to create a diversified portfolio: these OEM companies are investing in the OBM channel so that if the OEM business gets too tight or too dominated by one or two key companies, they can rely on the OBM business. This seems definitely to be a strategy, but companies must pay attention to position, with the own brand collection, in different market segments than those of their customers: otherwise, they risk to eliminate their customers, becoming instead direct competitors.

Better Silver: an example of functional upgrading

Better Silver's experience exemplifies this increasing concern on branded collections among district firms. Better Silver was founded in 1977, and since then it is specialized in chains production, mainly in silver, diversified in models, colors and dimensions. All the production activities are performed within the company, based in Bressanvido, with the exception of assembly which is instead performed in a wholly-owned company based in Romania (acquired in 2003 from a previously supplier), and the plating process which is outsourced within the district. The company employs 270 people, 96 working in the Italian headquarter, the others in the Romanian plant. The plants in Bressanvido count on more than 300 specialized machinery, which rely on a high level of technological content. Since the foundation, the company followed a strong

expansionary policy, which led the company to be today present in more than 80 markets worldwide, also thanks to the participation to the main international exhibitions of the sector. Better Silver, reasoning in GVC terms, is traditionally an OEM company: it mainly produces unbranded products, to which then its clients (Brosway, Rebecca, Swarovski just to cite some of its customers) put their logo on. In the interview conducted, the CEO of the company reported how investing in technological machinery and in research and development is fundamental to them in order to be competitive and to ensure the collaboration with international brands. To this concern, it is remarkable what the CEO reported: the company invested in the creation of a machinery specialized in setting the Swarovski stones in the classic chains of the brand; this investment made the Switzerland company subcontracting large orders to Better Silver, which ensure higher profits than the traditional chain production.

Better Silver, in order to address the increasing attention to branded jewelry, in 2015 – after two years of development - launched its branded collection, Roma 1947, celebrating the Italian *Dolce Vita*. Producing under a brand means to give an identity to the products, to work on the marketing mix, on communication, to control the distribution, selling directly to the retailers, bypassing the intermediation of the wholesalers and thus to directly control how the product will be presented to the final market. The company launched the brand because it wanted to go directly to the retail system, gaining a higher profit: in the chains production, companies must produce big quantities because the margin is too low. The core business still remains chains production but the company is facing other options, with the aim to gain visibility: with the brand, Better Silver sells the concept behind, the brand image, which permits to gain a higher profit.

Functional downgrading: from manufacturers to traders

Another interesting aspect emerged from the interviews is the fact that in Vicenza after 2009, as a reaction to the recession crisis, a lot of companies abandoned their manufacturing activities focusing only on trade, in order to avoid the high labor costs required for maintaining many employees. In this way, they fired the manufacturing employees, subcontracting to other firms, and maintained only the commercial parts: they have the commercial abilities, the buyers, an extensive base of clients, they know the foreign markets, they have the design and the brand. These company were able to maintain only the commercial part of the business because they can count on a large

clients base, normally the companies that adopted this strategy are well known in the foreign markets, and have important customers all over the world. They keep the commercial side of the company, whereas they dismissed the manufacturing plant, and instead subcontract the production to smaller companies. They have the commercial capability that, on the contrary, the small laboratories do not have since they do not speak English, and do not know how to move abroad. Reasoning from a GVC perspective, this could be an example of functional downgrading: firms reduce the mix of activities they perform, with the risk of a loss in products quality, since they cannot control directly.

6.5.4. Changes in the distribution strategies

Smaller firms still need the presence of strong wholesalers to get contacts with the final market, whereas bigger companies are trying to reform the traditional – long and fragmented - distribution system of the jewelry sector: they are trying to build up their own distributive channel, directly contacting the independent retailers, thus getting rid of the wholesalers' passage. This move is requested in the moment companies invest on a brand adventure - wholesalers' are deemed not to be able to effectively communicate the image, the story, the identity behind the brand – but there are also cases of companies with unbranded products trying to reorganize the distribution system.

Facco Corporation: an example of shortening the distribution chain

Vicenza's manufacturers have traditionally been distant from the final consumer, and even distant from the independent retailers. In order to ensure a proper communication to the final consumer, some of them are trying to get closer to the retailers: an example is Facco Corporation, which recently changed its business model to address this necessity.

Facco Corporation was founded in 1969 - initially for the sole production of pendants in different sizes and shapes – and since then it is focused in the production of light, gold jewellery, necklaces, bracelets, rings and earrings, for women, men and children, in a precise price range (the company proposes light items to contain prices between 70€ and 500€). Despite the general decrease in revenues experienced by jewelry sector, the company has kept on growing (with an increase of the turnover equal to 135% in period

2010-2015)⁴, although the company is not present in international markets but it is focused only on Italy and limited European countries. Facco Corporation reached these results by restructuring its business model, trying to offer higher value to its customers - jewelry chains and independent retailers, thus the company might be classified as hybrid, both ODM and OBM – directly interacting with them, and offering them services beside products, such as visual merchandising and inventory stock, guaranteeing retailers that every item will be shipped within 24 hours.

Facco's strategy is to continuously propose to its customers new collections, based on estimation of the demand - so that to satisfy the requirement of novelty on behalf of the consumers – divided by categories, already set for the shop's windows. The innovation lies on this: Facco Corporation offers retailers an entire service, that is, to sell jewelry as they will then be displayed in the window, permitting them to present a better organized offering to the final purchaser, avoiding the disorientation consumers face when they have to decide among huge unbranded and undifferentiated offering. The company presents its collection divided per occasion: there is the collection "Mommy" conceived for the mum-to-be; the collection "Love" firstly presented for Saint Valentine; the collection "Spring" with polished, colorful jewels.

This transformation in strategy is a response to changes in jewellery consumption: as reported in the interview, Facco noted that in the past women wore heavy, visible jewels, as a means of self-affirmation, whereas now – also as a consequence of a general contraction in consumption – the trend is towards light, less expensive items. But to offer the final consumer a cheaper jewel, there must be efficiency all along the jewels' value chain, and the company reaches this efficiency providing marketing services alongside jewels to its customers:

"Service and quality is what makes our company to stand out the other companies: this service and technology that allows to offer always lighter items, thus cheaper, permit to our customers to have less costs".

E-commerce

Some firms within the district are trying to shorten the distributive chain, connecting retailers to the factories, through an e-commerce channel.

As Better Silver reports, they wanted to be closer to the retailers, to connect retailers

⁴ Aida data

and factories. They opened a BTB e-commerce platform, Silverretail.it, which is managed by EasySilver, their distributor for the Italian market, because they wanted to capture more value (always getting rid of a ring of the value chains, the intermediaries), and also wanted to offer a way to retailers to buy from them for a cheaper price. Through this platform, they also serve as stock inventories for the shops, ensuring quick and efficient deliveries⁵. Other two examples of direct interaction through an e-commerce platform between factories and retailers are Maistrello S.r.l.⁶ and Ag2009 S.r.l.⁷, with the creation of a platform dedicated to operators of the sector.

6.6. The role of local actors

The interviewees reported conflicting opinions when asked whether being within the district still is an important factor of success to them. Some of them value positively the existence of the district: to be close to suppliers and to customers is a key element, working closely might still spread innovation and improvement and help in problem solving; being within the district permits to find a solution – and thus to offer a solution to the external customers – more easily and quickly. This is most true if considering that, as previously stressed, the two waves of crisis exercised a cleaning process in the numerous firms, thus the companies that survived are now stronger and more aware of the competitive environment than before.

Within the district, it has been highlighted, there are still the capabilities needed, the knowhow, the craftsmanship still exist, although there are problems for the reproducibility, in part because of the decrease in number of actors, in part because of the closeness that has always characterized the district that does not incentive the share of capabilities and innovation. Although at a less relevant measure if compared with the past, the interviewees reported that the presence within the district of some important local actors is relevant, in particular school, industry association and Vicenza fair.

Industry association – Confindustria and Consortium

The interviewees reported that the existence of some institutions such as Confindustria, the industry association, and the consortium, Gold & Silver Italian Group, is important

⁵ www.silver-retail.it

⁶ www.maistrellosrl.com

⁷ www.ag2009.it

especially for small scale enterprises, which have difficulties on the trading side when approaching new and distant markets. These companies, indeed, being too small to afford the participation to the trade shows, do not have many occasions to directly interact with many markets; the consortium, however, provides information and support in the relations, organizing situations aimed at meeting these companies with the foreign wholesalers⁸. These initiatives are more suited to small scale firms, distant from the market, whereas they are not relevant for the bigger, dynamic firms of the district.

“We are already attending a lot of shows, we are in the Hong Kong trade since 10 years, it is easier for us to meet different customers from different market and to understand which are their requirements; we have different opportunities, whereas other companies need to participate to these workshops to gain information” (CEO, Hybrid 3).

Vicenza fair

Vicenzaoro is a cornerstone for the global market in the jewelry sector, buyers from all over the world come there twice a year to discover the excellences of the district, although recently the fair has become more international also on the exhibitors' side.

The fair has traditionally permitted Vicenza's manufacturers to get known internationally, and it is an occasion for demand and offer to meet. The show is still an important window for the companies of the sector, for which the fair is an occasion of engaging new customers, signing agreements and gaining visibility thanks to the presence of the major newspapers of the sector.

The first appointment of the year is VicenzaOro Winter, in January, when firms present the spring/summer collections. In the same period also another event, VicenzaOro T-Gold takes place: it is an international trade show for jewelry machinery and technologies for jewels production. The third appointment of the year, VicenzaOro Spring, from 2015 took place in Dubai. The last appointment of the year is VicenzaOro Fall, in September, with a relevant timing thought for the sales of the last period of the year, and maybe the most important period of the year for the jewelry world, with the period of the Christmas holidays before and Saint Valentine then⁹.

The fair, although is still an important event, has lost the centrality it had in the past. In the past, it was the place to be, manufacturers were sure that, once they managed to

⁸ www.goldsilvergroup.it

⁹ www.vicenzaoro.com

have an exhibition space, they would sell what they presented, thus there were huge waiting lists to have an exhibition place. This is also because there are more trade shows in the world, each one specialized into something particular.

However, Vicenza fair, according to the various interviews, seems to be still very important. Manufacturers actually sign contracts in the fair, and buyers going to the fair are going there looking for Italian merchandise, whereas in Hong Kong or Las Vegas shows they buy Chinese merchandise,

*“When they are coming here, it means that they are indeed looking for Italian merchandise”.*¹⁰

One surprisingly aspect that emerged from the interviews was the fact that it seems that more than half of the companies within the district produce final jewels, whereas reasoning with an industrial district perspective, one would expect to find a lot of specialized suppliers doing just a few steps in the production. Vicenza fair, indeed, had a great role in this: every small company could sell to the American, the Russian buyers at the fair (although not always in legitimate ways). Nowadays, the control are much stricter and thus the companies who used to work in this way went out of the market and part of the consolidation of the district was also the legalization of the district. Vicenza fair has also an agreement with the Arezzo fair to join forces: Arezzo fair is too small to survive in the global competition, so they created a joint venture to manage together the business, merging the abilities of both districts. As Matteo Marzotto - the president of Vicenza fair - declared in an interview, the goal of the partnership is to create a more competitive fair network in the competitive international arena (Il Sole 24 ore, 2016); a merge with Rimini fair is set to happen by the end of 2016. As already mentioned, since 2015 the spring edition of the fair has moved to Dubai (VicenzaOro Dubai) through the joint venture DV Global Link. This partnership gained the support of the Italian Ministry for the Economic Development, to stress the relevance of the project. The project is in line with the gradual internationalization of the fair, which has alliances also with the JCK Show in Las Vegas (with an area dedicated to Vicenza manufacturers) and with India International Jewellery Show (Preziosamagazine, 2016).

The total number of companies coming to the fair is more or less the same, but 30 years ago there were basically only companies from Vicenza, nowadays instead almost half of the exhibitors are from Arezzo, then there are also many Chinese, Indian and Turkey

¹⁰ Fratelli Bovo.

companies as exhibitors: the fair has internationalized, not only concerning the buyers (coming from 120 countries) but also concerning the exhibitors. For what concern the buyers, the fair attracts representatives of the whole jewelry world: from the small shop in the city center to the buyers of big department stores and the chain retailers.

Conclusions

The aim of this work was to examine how Valenza Po and Vicenza jewellery IDs reacted to the changes in competitive environment they assisted to in the last two decades, analyzing how the districts performed and how district's firms adapted their strategies to overcome emerging and - until that moment - unknown obstacles, trying to identify how the two districts inserted into global value chains. This analysis has been conducted trying to blend the IDs literature with the global value chains framework. Using the GVCs perspective and its terminology permits to examine how divergent performance outcomes, and thus different destinies for the two districts, may depend on how Italian districts – through the actions of most dynamic district actors and the role of local institutions – are differently included into global networks. The GVCs framework allows to capture the role of key global players, the way they engage with local firms (vertically integrating, selecting suppliers...) and the division of value-added activities with local companies (working as OEM, OBM or ODM). From the analyses of the major transformation occurred within Valenza Po and Vicenza goldsmith districts in the last two decades, and the consequent changes in strategic approaches adopted by reacting firms, many differences emerged, with consequences on the actual state and

performance of the districts. Valenza and Vicenza jewellery districts profoundly differ on various aspects: the two districts differ in demography terms, in their export performance, in strategies adopted, in internal dynamics, in their structure, in markets targeted and in products offered. Here after, a synthesis of these differences as emerged in the course of this thesis.

- **IDs and the globalization and world recession crises**

Both Valenza Po and Vicenza jewelry districts have been dramatically affected in demography terms by the two waves of crises – globalization in early 2000s and the world recession in 2008-2009 – causing a significant downturn in demography terms, but they impacted the two districts in different ways. In particular, in Tab.2 it is shown how in '00-'14 period Valenza assisted to a decrease in firms number equal to 42,7% and Vicenza equal to 45,4%; in number of employees terms Valenza had a downturn equal to 37,4% and Vicenza equal to 62,8%.

Tab. 2: Valenza's and Vicenza's demography patterns

		Variation %					Values	
			'00-'05	'05-'10	'10-'14	'00-'14	2000	2014
Firms	Values	Valenza	-13,0%	-21,6%	-16,0%	-42,7%	1.414	810
		Vicenza	-14,6%	-23,8%	-16,1%	-45,4%	1.090	595
	Share on Italian tot	Valenza	-4,7%	-14,2%	-7,2%	-3,3%	13,7%	10,4%
		Vicenza	-6,4%	-16,7%	-7,4%	-2,9%	10,5%	7,6%
Employees	Values	Valenza	-6,8%	-27,9%	-6,8%	-37,4%	8.040	5.036
		Vicenza	-23,0%	-44,1%	-13,6%	-62,8%	11.473	4.264
	Share on Italian tot	Valenza	4,8%	-7,0%	-0,7%	-0,5%	16,7%	16,2%
		Vicenza	-13,4%	-27,9%	-4,9%	-9,7%	23,8%	14,1%
Average employees		Valenza	7,1%	-8,0%	10,9%	9,3%	5,7	6,2
		Vicenza	-9,8%	-26,6%	2,9%	-31,9%	10,5	7,2

Source: own elaboration on ISTAT data

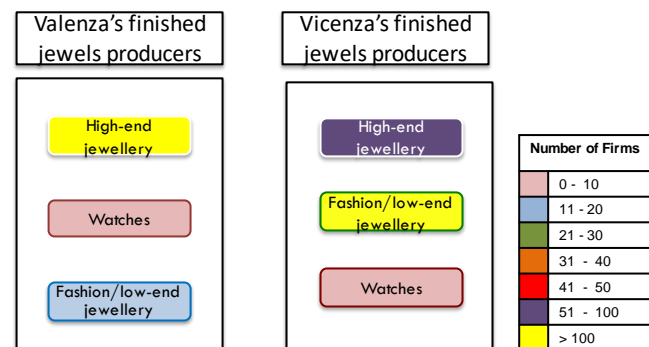
These downturn are extremely relevant for both districts - “The experience of job-loss and unemployment are directly linked with the disruption of the professional community that underpinned the business” (Fontefrancesco, 2016) – however, the decrease is starker and even more worrying for Vicenza. In Valenza there has been a larger depletion in number of firms than in number of employees, whereas in Vicenza the depletion in number of employees is larger than the depletion in number of firms:

this divergence lies on the fact that in Valenza the presence of leading firms – such as Bulgari and Damiani – is starker than in Vicenza, thus there has been a production concentration on the hands of these leading firms.

- **Characteristics of the two districts**

Valenza Po and Vicenza jewellery districts dramatically differ on the product offered: Valenza's traditional production is unique, presenting one-of a kind pieces, targeting very high-end markets, whereas Vicenza mainly targets fashion and low-end markets. This is visible on the scheme of the district presented in GVCs terms (Fig. 1).

Fig. 1: Valenza's and Vicenza's finished jewels' target markets



Source: own elaboration on interviews conducted

- **Performances of the IDs**

The divergence on the product offered, and thus on the final markets, affects the production process characteristics and thus the firms' structure. This reflects on the demography of the districts: Valenza Po still largely relies on handwork whereas Vicenza is more industrialized, thus Valenza Po's average employees number is smaller than Vicenza's. These structural differences are tangible looking at the aggregate return on assets of the two districts, also from a temporal perspective: except for 2000, thus before the two waves of crises, and for 2010, Valenza shows a higher ROA, thus confirming that turning to niche, luxury markets is more profitable, being less exposed to competition on costs; this is most true nowadays where the divergence is starker.

Tab. 1: Vicenza and Valenza historical ROA (%)

ROA %				
	2000	2005	2010	2015
Vicenza	6,53%	2,77%	3,02%	-4,96%
Valenza Po	6,04%	5,01%	1,66%	1,63%

Source: own elaboration on AIDA data

The two districts diverge also on the export patterns they assisted to in the last two decades. As a result of the asymmetric forces of globalization, with new competitors from emerging economies facing the competitive scenario, of economic recession, with drops in advanced economies' jewellery demand, and of a general shift in consumers' taste, exports of both districts have strongly decreased. It is worth highlighting how results diverge if considering exports in values terms or in quantity terms (Tab.3): the price of gold has dramatically increased during these years (an increase equal to 240% in period '00-'15); this is very relevant in the gold jewellery industry as the raw materials used make up a large part of the final price of the product. In quantity terms, in '00/'15 period Valenza assisted to a decrease equal to 1%, Vicenza equal to 78%; in values terms Valenza increased by 237% whereas decreased by 24%: this divergence remarks the intensely higher intrinsic value of Valenza's jewels.

Tab. 3: Valenza's and Vicenza's export variations (values and quantity)

		Values				Variations			
		2000	2005	2010	2015	% '00-'05	% '05-'10	% '10-'15	% '00-'15
Values	Valenza	499,0	401,4	562,5	1.681,4	-20%	40%	199%	237%
	Vicenza	1.946,0	1.284,0	1.221,1	1.476,7	-34%	-5%	21%	-24%
Quantity	Valenza	724,0	487,7	268,7	717,4	-33%	-45%	167%	-1%
	Vicenza	2.823,8	1.559,9	583,4	630,1	-45%	-63%	8%	-78%
Gold price		689,1	823,1	2.093,2	2.343,6	19%	154%	12%	240%

Source: own elaboration on Coeweb ISTAT data - ATECO code 32.1- and on World

Gold Council data

The reason of the divergence of exports' performance between Valenza and Vicenza might lie in the fact that it seems that the middle market is disappearing, with a consequent polarization between top end (luxury) and low end (mass market) jewelry (Gereffi & Lee, 2008); moreover, since Valenza is characterized by a production with higher value added, it is less exposed to competition from low cost countries if compared to Vicenza.

- **Export market strategies**

It is now interesting to analyze changes in export destinations: once again, differences suggest a heterogeneity between Valenza and Vicenza; the two IDs followed different export strategies and changed their international trading partners in the face of the recession crisis as compared to the globalization one. During these two crises, both districts have lessened their dependence on the US, traditionally their main market. The decrease in the US market, following the industry shock in the early 2000s, was offset by increasing exports to UAE from Vicenza companies; Valenza Po instead targeted advanced economies in Europe (Switzerland and France).

Tab. 5: Valenza's top three market destination, 2000 and 2015

2000				2015			
rank	Country	Values (mil €)	share	rank	Country	Values (mil €)	share
1	US	96,3	19,3%	1	Switzerland	934,9	55,6%
2	Switzerland	85,7	17,2%	2	France	284,6	16,9%
3	UK	72,4	14,5%	3	Us	76,1	4,5%

Sources: own elaboration on COEWEB Istat data, referring to ATECO Code 32.1

Tab. 6: Vicenza's top three market destinations, 2000 and 2015

2000				2015			
rank	Country	Values (mil €)	share	rank	Country	Values (mil €)	share
1	US	807,2	41,5%	1	Hong Kong	282,4	19,1%
2	EMIRATE	131,4	5,9%	2	Emirates	228,4	15,5%
3	UK	104,1	5,4%	3	US	200,0	13,5%

Sources: own elaboration on COEWEB Istat data, referring to ATECO Code 32.1

In order to understand the reasons why such differences emerged, and what supported the dynamism of IDs, I tried to complement the analysis of trade and demography data with evidence from secondary sources, including newspapers, industry publication, firm's websites and interviews with industry experts. The organization of this qualitative analysis has been conducted always aiming at linking the GVCs framework

to IDs literature, thus considering the role of global lead firms and district leaders, internationalization strategies and upgrading patterns and the presence of active local institutions.

- **Role of global lead firms and district leaders**

At this concern, a profound heterogeneity between Valenza and Vicenza emerges: in Valenza, leading IDs firms (Bulgari, Damiano, Crivelli, Recarlo...) play an important role, although production is increasingly concentrated in their hands (Tab. 7). It has been shown (Chapter 5), however, how these leading firms rely on district's capabilities and resources, selecting qualified suppliers within the districts: it is up to other district's firms to upgrade their production standards in order to be included in these players' networks.

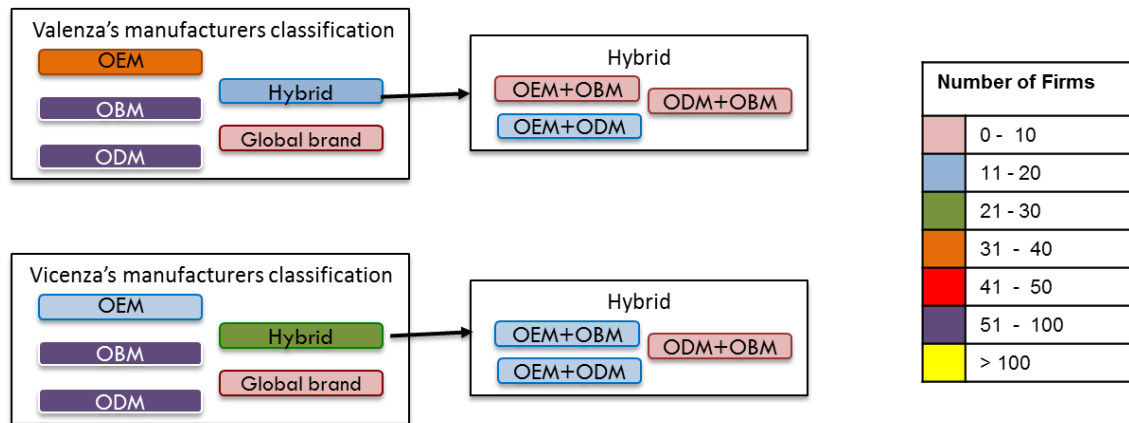
Table 7: Percentage of total turnover on the hands of Valenza's leading firms

Company	Turnover 2015	% Tot 2015	% Tot 2010	% Tot 2005	% Tot 2000
Bulgari Gioielli Spa	210,3	19%	5%	4%	n.d.
Casa Damiani Spa	144,5	13%	4%	13%	13%
Crivelli Srl	66,6	6%	4%	4%	2%
Recarlo Spa	24,9	2%	2%	3%	1%
Vhernier Spa	22,6	2%	1%	0%	n.d.

Source: own elaboration on Aida data

On the contrary, in Vicenza, where there are big, international and well performing firms as well, such as Marco Bicego, Roberto Coin and Cielo Venezia 1270, from the interviewees it emerged that these firms have little connection to local producers, thus they do not contribute to the district's overall development, as happened in Valenza Po. The existence or the absence of connection, through subcontracting agreements, between leading firms and other district players is evident also on the approximate district classification in GVC terms (Fig. 2) I performed after having conducted the qualitative analysis: Valenza's OEM and ODM firms – thus those firms which produce for others under sub-contracting agreements - are more numerous than Vicenza's, whose OBM companies instead are more numerous.

Fig. 2: Valenza's and Vicenza's manufacturers classification in GVC terms



Source: own elaboration on interviews conducted

This divergence in relying on district's capabilities results in a complete different outcome in performance of the district as a whole. It has been demonstrated (Chapter 2) how, for the future of the district, it is fundamental that dynamic actors are followed by other district's actors, thanks to the complex networks of subcontracting, so that leading firms do not separate their destiny from their district: if innovation is spread throughout the agents, also smaller firms are able to avoid succumbing to global competition.

- **Changes in strategies and upgrading patterns**

For what concerns the major changes in strategies adopted in the last fifteen years, as emerged from secondary data analysis, it seems that Vicenza has been more dynamic in terms of reactions to the external environment through changes in the strategic approach, if compared to Valenza. The reason of this divergence might lie in the fact that in Valenza the production is more homogeneous (with 80% of the final products producers offering high-end jewelry), and it has traditionally always been like this, whereas in Vicenza there has been a requalification in the offering, especially as a reaction to the globalization crisis wave (De Marchi *et al.*, 2014).

Both in Valenza and in Vicenza there have been patterns of product upgrading: in Valenza, on behalf of the OEM districts firms who increased their quality standards in order to be recognized as valid suppliers for big brands; in Vicenza on behalf of those

firms who tried to increase the offer range, going beyond the traditional Vicenza's offering – mainly chains and pendants – and tried to turn to new market segments, such as younger generations. As a confirm of a stronger dynamism in Vicenza district, it has been reported how Vicenza also assisted to functional upgrading, with various firms moving towards OBM business, trying to get rid of the dependence on wholesalers, in order to gain a larger margin, and to changes in distribution strategies. On the contrary, in Valenza, except some cases (e.g. Callegher), there have been less OBM approaches, for the fear of losing clients.

- **Presence of active local institutions and collective action**

It has been shown how the two districts show profound differences also on the perception actors have on the importance of the district, on the importance of collective actions and on the existence of active local institutions. In sum, it seems that in Vicenza there are few effective cooperative actions within the district, both among firms and with other institutions, despite the presence in the district of strong local institutions like the Vicenza Fair; interviewees often reported the general closeness that has always characterized the district. In Valenza, on the contrary, it seems that collective action is more vivid, firms rely on the action of local institutions (AOV and industry association), there is more concern on the district reproducibility, especially for what concern the threat of missing of craftsmanship, a threat that instead is not so vivid in Vicenza, since the production is more industrial.

Overall, trade and demography data analysis, combined with qualitative analysis, reveal great heterogeneity in the outcomes and in the strategies adopted by Italy's IDs, even within the same industry and the same country. Valenza and Vicenza districts seem to have undertaken divergent evolutionary paths – Valenza towards hierarchization, with a depletion in stock of firms, presence of lead firms and selection in inter-organizational relations; Vicenza towards decline, given the collapse in stock of firms, the absence of leading firms and the depletion of inter-organizational relations. In the course of this work, the elements capable of affecting performances, strategies and possible trajectories of evolution for the IDs have been highlighted. The two districts have shown significant differences in terms of their capacity to respond to the growing globalization of the markets, to the recession crisis and to the changes in consumers'

behaviors; a key element motivating such heterogeneous capacity of IDs to compete in global markets may lie on the capacity to occupy an adequate position in global value chains. The participation of IDs firms in global value chains may act as a bridge between local and global knowledge; the involvement of IDs firms in GVC also enhances their innovation performance through the standards they will have to comply with when entering a GVC. The results of the analysis conducted suggest that these are the characteristics internal to the districts but inherent to the GVCs framework that lead to divergent outcomes:

- The presence/absence of global lead firms: when global lead firms actively engage with a network of local IDs firms, albeit hardly selecting relations to maintain within the district, they boost performance of other local companies, including IDs firms in their GVC.
- The presence/absence of a large base of local dynamic actors, quick in adapting to the changing environment, able to enact upgrading patterns and changes in their strategies, capable in driving, through the relations they interact inside and outside the district, also other IDs firms.
- The presence/absence of local institutions, which support effectively the reproducibility of the local knowledge and capabilities base.

Concluding, it is worth stressing once again the relevance of adopting a GVCs perspective in analyzing the contemporary IDs: GVCs framework, examining the network of relationships IDs firms hold inside and outside the district and identifying possible upgrading patterns, may serve as a guide for policymakers in suggesting what are the key elements to consider in order to support the development or the recovery of IDs. The trajectories Valenza and Vicenza districts have undertaken – fortunately - are not irreversible nor stable; Vicenza, from a situation of decline may evolve towards evolutionary reproduction through the action of effective policies aiming at making attractive for global lead firms a sufficient base of local companies; Valenza from a hierarchization trajectory might downgrade to decline if not effectively supported or upgrade towards evolutionary reproduction through the support of policies aiming at stimulating local dynamic actors. An effective policies making might divert the evolutionary trajectories Valenza and Vicenza have undertaken, supporting, maintaining or creating the conditions for which the IDs represent an attractive base for production

both for global lead firms and local dynamic actors.

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